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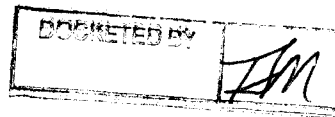
BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP,
Chairman
GARY PIERCE,
Commissioner
BRENDA BURNS
Commissioner
SUSAN BITTER SMITH,
Commissioner
BOB BURNS,
Commissioner

2013 MAR 25 P 3:34

Arizona Corporation Commission
DOCKETED

MAR 25 2013



COMMISSION
FILE CONTROL

IN THE MATTER OF THE APPLICATION
OF VAIL WATER COMPANY FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANT AND PROPERTY
AND FOR AN INCREASE IN ITS RATES
AND CHARGES BASED THEREON

DOCKET NO. W-01651B-12-0339

NOTICE OF FILING REBUTTAL TESTIMONY

Attached is the Rebuttal Testimony of Thomas J. Bourassa, Kara D. Festa, PE and
Christopher Volpe filed on behalf of Vail Water Company.

Respectfully submitted this 25th day of March, 2013.

LEWIS AND ROCA

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ORIGINAL and thirteen (13) copies
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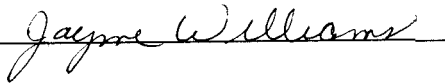
1 Arizona Corporation Commission
2 Docket Control – Utilities Division
3 1200 W. Washington Street
4 Phoenix, Arizona 85007

5 Copy of the foregoing hand-delivered
6 this 25th day of March 25, 2013 to:

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IN THE MATTER OF THE APPLICATION
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ITS RATES AND CHARGES BASED
THEREON.

DOCKET NO: W-01651B-12-0339

**REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
(COST OF CAPITAL)**

March 25, 2013

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3 **I. INTRODUCTION AND QUALIFICATIONS**

4 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

5 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
6 Phoenix, Arizona 85029.

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

8 A. I am testifying on behalf of the applicant, Vail Water Company. ("VWC" or the
9 "Company").

10 **Q. ARE YOU THE SAME THOMAS J. BOURASSA THAT FILED DIRECT
11 TESTIMONY IN THIS DOCKET?**

12 A. Yes, my direct testimony was presented in two volumes. My background
13 information and qualifications are set forth in the rate base and revenue
14 requirement volume of my direct testimony.

15 **Q. DID YOU ALSO PREPARE REBUTTAL TESTIMONY ON THOSE ISSUES
16 IN THIS DOCKET?**

17 A. Yes, my rebuttal testimony on rate base, income statement, revenue requirement
18 and rate design is being filed in a separate volume at the same time as this
19 testimony. In this volume, I present my cost of capital rebuttal testimony. Also
20 attached are two exhibits, which are discussed below.

21 **II. SUMMARY OF REBUTTAL TESTIMONY AND THE PROPOSED COST
22 OF CAPITAL FOR THE COMPANY**

23 **A. Summary of Company's Rebuttal Recommendation**

24 **Q. WHAT IS THE SCOPE OF THIS VOLUME OF YOUR REBUTTAL
25 TESTIMONY?**

26 A. I will provide updates of my cost of capital analysis and recommended rate of
return using more recent financial data. I also will provide rebuttal as appropriate
to the direct testimony of Staff witness John Cassidy.

1
2 **Q. HOW HAS THE INDICATED RETURN ON EQUITY CHANGED SINCE**
3 **THE DIRECT FILING WAS MADE LAST AUGUST?**

4 A. The cost of equity has decreased somewhat since I prepared my cost of equity
5 analysis in July 2012. The table below summarizes the results of my updated
6 analysis using those models:
7

<u>Method</u>	<u>Low</u>	<u>High</u>	<u>Midpoint</u>
Range DCF Constant Growth Estimates	8.7%	9.7%	9.2%
Range of CAPM Estimates	8.7%	12.7%	10.7%
Average of DCF and CAPM midpoint estimates	<u>8.7%</u>	<u>11.2%</u>	<u>9.9%</u>
Financial Risk Adjustment	-0.8%	-0.8%	-0.8%
Specific Company Risk Premium	<u>1.0%</u>	<u>1.0%</u>	<u>1.0%</u>
Indicated Cost of Equity	8.6%	11.4%	10.1%

16
17 The schedules containing my updated cost of capital analysis are attached to this
18 rebuttal testimony.

19 My 10.1 percent ROE recommendation balances my judgment about the
20 degree of financial and business risk associated with an investment in VWC as well
21 as consideration of the current economic environment.

22 **Q. HAVE YOU UPDATED YOUR COST OF EQUITY ESTIMATE FOR SWC**
23 **USING DUFF& PHELPS RISK PREMIUM STUDY DATA?**

24 A. Yes, as shown in **Rebuttal Exhibit TJB-COC-RB1**. The 2012 Duff & Phelps
25 Risk Premium Study data is now available, and I have updated my cost of equity
26 estimate using this data. As I did in my direct testimony, I have included cost of

equity estimates for the water sample companies. These estimates have been adjusted for leverage (financial risk) differences between the companies in the size portfolios contained in the study and the water sample companies and VWC. Further, like the Build-up Method cost of equity estimate using the *Morningstar* data, the cost of equity estimates includes a water industry risk premium adjustment.¹ I have also used the most recent recommendations for the market risk premium from *Duff & Phelps* for use with the study data. Based on various measures of size the results are as follows²:

<u>Stock Symbol</u>	<u>Company</u>	<u>Cost of Equity</u>
AWR	American States Water Co.	9.88%
WTR	Aqua America	8.21%
CWT	California Water Services Group	10.69%
CTWS	Connecticut Water Services	12.28%
MSEX	Middlesex Water Company	11.60%
SJW	SJW Corp.	11.79%
	Average	10.74%
	Midpoint	10.25%
	VWC	13.58%

Q. HOW DO THE DUFF AND PHELPS COST OF EQUITY ESTIMATES COMPARE TO YOUR DCF AND CAPM RESULTS?

A. The results of my DCF and CAPM analyses for the publicly traded water companies are lower than the results of the build-up method using the *Duff &*

¹ Note that the risk premium for the water utility industry is negative indicating that water utilities are less risky than the market as a whole.

² See Exhibit TJB-COC-RB1, Table 6.

1
2 *Phelps* study data. The mid-point of my DCF and CAPM results is 10.1 percent
3 which is somewhat below the midpoint of the ranges of estimates produced by the
4 build-up method using the *Duff & Phelps* study data which range from 8.21 percent
5 to 12.28 percent with a midpoint of 10.25 percent. Second, and more importantly,
6 my recommended ROE of 10.1 for VWC is well below the mid-point of the range
7 of estimates for VWC using both build-up methods (one using the *Morningstar*
8 data³ and the other using the *Duff & Phelps* study data) which range from 10.1
9 percent to 13.58 percent with a mid-point of 11.8 percent. Accordingly, I find my
10 recommendation of a 10.1 percent ROE appropriately conservative.

11 **Q. DO THE COST OF EQUITY ESTIMATES BASED ON DUFF & PHELPS**
12 **TAKE INTO CONSIDERATION THE DIFFERENCES IN LEVERAGE**
13 **BETWEEN THE PUBLICLY TRADED SAMPLE WATER UTILITIES**
14 **AND SWC?**

15 A. Yes.

16 **Q. HAVE YOU ACCOUNTED FOR THE FACT THAT THE WATER**
17 **UTILITY INDUSTRY IS LESS RISKY THAN THE MARKET?**

18 A. Yes. Based on the industry data, each of above estimates based on the *Duff &*
19 *Phelps* risk premium study is adjusted downward for the water utility industry risk
20 based upon the water industry risk premium found in *Morningstar*.⁴ As shown in
21 Table 5 of Rebuttal Exhibit TJB-COC-RB1, the appropriate downward industry
22 risk premium adjustment is approximately 360 basis points.⁵

23
24
25 ³See Direct Testimony of Thomas J. Bourassa - Cost of Capital ("Bourassa COC Direct") at 44-45.

26 ⁴Morningstar, *Ibbotson SBBI 2013 Valuation Yearbook*. Table 3-5.

⁵ A downward market risk premium indicates the water utility industry is less risky than the market on average. This is consistent with water utility beta's being less than 1.0.

1
2 **Q. WHAT WAS THE ASSUMED HISTORICAL MARKET RISK PREMIUM**
3 **USED IN THE DUFF AND PHELPS STUDY AND YOUR ESTIMATED**
4 **COST OF EQUITY?**

5 A. The *Duff & Phelps* study reflects an historical market risk premium of 4.5 percent
6 from 1963 to 2012. I used a current market risk premium estimate of 5.0 percent
7 for my calculations. The 5.0 percent is based on the current recommendations of
8 the authors of the *Duff & Phelps* study for use with the study data.⁶ In contrast, the
9 long-horizon equity risk premia as determined by *Morningstar* is 6.7 percent.⁷

10 **Q. THANK YOU. PLEASE SUMMARIZE YOUR RECOMMENDED**
11 **REBUTTAL COST OF CAPITAL COMPONENTS.**

12 A. The Company's recommended capital structure consists of 0 percent debt and 100
13 percent common equity as shown on Rebuttal Schedule D-1. Based on my updated
14 cost of capital analysis, I am recommending a cost of equity of 10.1 percent. Based
15 on my 10.1 percent recommended cost of equity, and a 0 percent debt and a 100
16 percent equity capital structure, the Company's weighted average cost of capital
17 ("WACC") is 10.1 percent, as shown on Rebuttal Schedule D-1.

18 **A. Summary of the Staff**

19 **Q. PLEASE SUMMARIZE THE RESPECTIVE RECOMMENDATIONS OF**
20 **STAFF FOR THE RATE OF RETURN ON FAIR VALUE RATE BASE.**

21 A. Staff is recommending a capital structure consisting of 0 percent debt and 100
22 percent equity.⁸ Staff determined a cost of equity of 9.1 percent based on the
23 average cost of equity produced by its DCF and CAPM models and an upward
24

25
26 ⁶*Duff & Phelps* at 2.

⁷*Morningstar.Ibbotson SBBI 2013 Valuation Yearbook*. Table A-1.

⁸See Direct Testimony of John Cassidy ("Cassidy Direct") at 34.

1
2 economic assessment adjustment.⁹ Staff uses a sample of six publicly traded water
3 utilities, the same as those I used in my analysis. Staff did not consider firm size or
4 firm-specific risks in its analysis. Based on its capital structure recommendation,
5 Staff determined the WACC for VWC to be 9.1 percent.¹⁰

6 **Q. PLEASE COMPARE THE PARTIES' RESPECTIVE COST OF EQUITY**
7 **ESTIMATES AND RECOMMENDATIONS.**

8 A. The respective parties' cost of equity recommendations are summarized below:

9

<u>Party</u>	<u>DCF</u>	<u>CAPM</u>	<u>Average</u>	<u>Recommended</u>
VWC	8.7%	11.2%	9.9%	10.1%
Staff	8.8%	8.2%	8.5%	9.1%

13
14 B. Comments on the Cost of Equity Results and Recommendations of Staff

15 **Q. HOW DO THE PARTIES' RECOMMENDATIONS COMPARE TO**
16 **OTHER FORECASTS OF COMMON EQUITY RETURNS AND**
17 **CURRENTLY AUTHORIZED RETURNS?**

18 A. *Value Line*, a reputable publication used by the Company and Staff cost of capital
19 witnesses, publishes forecasts of returns on common equity for larger publicly
20 traded water companies. These water utilities are included in my sample group and
21 Staff's sample groups. *Value Line* (January 18, 2013) projects the following
22 returns on equity for those water utilities:

23

American States Water (AWR)	12.0%
Aqua America (WTR)	12.5%

24
25

26 ⁹*Id.*

¹⁰*Id.*

California Water (CWT)	10.5%
Connecticut Water (CTWS)	10.5%
Middlesex Water (MSEX)	9.0%
SJW Corp. (SJW)	<u>7.0%</u>
Average	10.3%

Furthermore, the currently authorized ROE's for the sample water utility companies as reported by AUS Utility Reports (January 2013) average 10.03 percent. They are as follows:

American States Water (WTR)	9.99%
Aqua America (WTR)	10.33%
California Water (CWT)	9.99%
Connecticut Water (CTWS)	9.75%
Middlesex Water (MSEX)	10.15%
SJW Corp. (SJW)	<u>9.99%</u>
Average	10.03%

Q. DO INVESTORS CARE ABOUT THE RETURN ON EQUITY THAT A COMPANY IS EARNING AND IS PROJECTED TO EARN?

A. Of course, if they are looking to make sound investments. Returns on equity, earnings per share, and stock price/earnings ratios are widely followed and reported by investment services, business magazines, and other financial media outlets. A company's earnings play a major role in any investment decision. The higher the return on equity, the greater the company's earnings and funds are available to pay dividends and to reinvest in capital projects.

1
2 In the instant case, we are attempting to establish a fair and reasonable
3 return on equity for VWC which will in turn be used to establish a rate of return on
4 the fair value of VWC property devoted to public service. That rate base is an
5 accounting or book rate base. The rate base has not been adjusted to reflect the
6 current market value of the utility plant and assets devoted to public service. In
7 other words, Staff is applying a *market* return derived from a finance model to the
8 Company's *book* equity, which in turn is financing a *book* rate base. Thus, Staff is
9 ignoring the fact that a firm's earnings, whether they are reported as the return on
10 equity or as earnings per share, are also based on accounting data, as opposed to
11 market data. For example, earning per share ("EPS") is calculated by dividing net
12 income into the number of shares outstanding. The current market price of those
13 shares is irrelevant to that calculation.

14 **Q. WHAT ELSE IS THE RELEVANCE OF ALL THESE PROJECTED BOOK**
15 **RETURNS, MR. BOURASSA?**

16 **A.** In this case, comparison to these proxies readily illustrates that Staff's return is 93
17 basis points lower than the average of the currently authorized returns and 120
18 basis points below the average of the 3-5 year expected returns of the publicly
19 traded utilities Staff uses to estimate the cost of equity for VWC. Regardless of the
20 particular finance model being used, the results of the model should be reasonable
21 and generally consistent with the returns on equity actually being earned or
22 projected to earn.

23 **Q. THANK YOU. HOW DO THE PARTIES' RECOMMENDATIONS**
24 **COMPARE TO THE DUFF & PHELPS RISK PREMIUM STUDY DATA?**
25
26

A. The build-up method cost of equity average estimate using the *Duff & Phelps* study data is 10.74 percent. This is 164 basis points higher than Staff's recommendation of 9.1 percent and 64 basis points higher than my recommendation of 10.1 percent.

Q. WHAT ABOUT SIZE-BASED METRICS LIKE NET PLANT AND TOTAL REVENUES, DO THOSE FACTOR IN UNDER THE BUILD-UP METHOD?

A. Not directly; however, these metrics confirm the results. Below is a table using the two common metrics of size as reported by AUS Utility Reports (March 2013) compared with the results of my cost of equity analysis based on the *Duff & Phelps* study.

	Net Plant (\$ millions)	Size Rank by Plant	Revenue (\$ millions)	Size Rank by Rev.	<i>Duff & Phelps</i> COE	Lowest to Highest COE
<u>Water Utility</u>						
American States Water (WTR)	\$ 912.0	3	\$ 449.7	3	9.88%	2
Aqua America (WTR)	\$3,863.4	1	\$ 755.7	1	8.21%	1
California Water (CWT)	\$1,443.1	2	\$ 541.5	2	10.69%	3
Connecticut Water (CTWS)	\$ 422.6	6	\$ 79.8	6	12.28%	6
Middlesex Water (MSEX)	\$ 433.3	5	\$ 106.6	5	11.60%	4
SJW Corp. (SJW)	<u>\$ 870.5</u>	4	<u>\$ 261.4</u>	4	<u>11.79%</u>	5
Average	\$1,324.2		\$ 365.8		10.74%	
VWC (at December 31, 2012)	\$ 16.5		\$ 2.3		13.78%	

What this illustrates is that, despite the fact that neither net plant nor revenues were considered as measures of size using the build-up method, the cost of equity results show that as the size of the utility increases so does the cost of equity. This is as expected and is consistent with the empirical financial data found in *Morningstar*.

The average net plant for the publicly traded water utilities is over 80 times that of VWC and the average total revenues are over 156 times. There is a

1
2 significant size difference and one would expect the cost of equity estimate for
3 VWC to be much higher, and it is. Therefore, it is again confirmed that these large
4 publicly traded utilities are less risky than VWC. In the real world, VWC has a
5 cost of equity that is higher than the large publicly traded utilities.

6 **Q. PLEASE SUMMARIZE THE RECOMMENDED RETURNS OF THE**
7 **PARTIES, EXPECTED BOOK RETURNS, AUTHORIZED RETURNS,**
8 **AND RETURNS BASED ON THE DUFF & PHELPS STUDY.**

9 A. The following table summarizes the equity returns recommended by each of the
10 parties with the forgoing expected book returns, authorized returns, and returns
11 based upon size (*Duff & Phelps*) for the publicly traded utilities:

	<u>Cost of Equity</u>
Staff recommendation	9.10%
VWC recommendation	10.10%
Mid-point of DCF and CAPM (Water Utilities)	9.90%
Expected Book Returns (Water Utilities)	10.30%
Authorized Returns (Water Utilities)	10.03%
Duff & Phelps (Water Utilities)	10.74%

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17 The foregoing data provide clear evidence that the Staff recommendations for
18 VWC is simply too low. At the end of the day, when all the expert and lawyer
19 wrangling over inputs and assumptions is done, the results should still pass the
20 simple, common-sense “smell test”, and the Staff recommendation doesn’t pass
21 that test.

22 **Q. PLEASE COMMENT THE STAFF PROPOSED ECONOMIC**
23 **ASSESSMENT ADJUSTMENT.**

24 A. Mr. Cassidy’s DCF and CAPM results produce a 8.5 percent average ROE. Mr.
25 Cassidy then adds an economic assessment adjustment of 60 basis points to achieve
26 his recommended 9.1 ROE. The economic assessment adjustment appears to be
Mr. Cassidy’s acknowledgment that the results of his models are unreasonably low.

1
2 But even if Mr. Cassidy adds his economic assessment adjustment, his
3 recommendation of 9.1 percent does not pass the “smell test” when compared to
4 the projected and authorized returns for the sample publicly traded utility
5 companies.

6 **Q. THANK YOU. TURNING NOW TO MR. CASSIDY’S CRITICISMS OF**
7 **YOU FOR CONSIDERING THE DIFFERENCES IN RISK DUE TO THE**
8 **SIZE OF VWC COMPARED TO THE PUBLICLY TRADED SAMPLE**
9 **UTILITIES. PLEASE COMMENT.**

10 A. Mr. Cassidy does not dispute that smaller companies are more risky than larger
11 companies. Staff simply opines the Commission has not allowed a risk premium
12 for size in the past.¹¹ Frankly, it is so astonishing that the process in Arizona has,
13 heretofore, ignored what the rest of the financial world knows – that size matters –
14 I simply cannot avoid discussing it without me having to question my own integrity
15 as a cost of capital expert.

16 **Q. OKAY, WHY DOES SIZE MATTER IN AN ANALYSIS OF A UTILITY’S**
17 **COST OF CAPITAL?**

18 A. There are many reasons why smaller utilities are more risky than larger utilities.
19 I have discussed these reasons extensively in my direct testimony and will not
20 repeat that testimony here.¹² The simple fact is that a rational investor is not going
21 to view an equity investment in VWC as having the same risk as the purchase of
22 publicly traded stock in a substantially larger utility such as Aqua America,
23 American States Water or California Water Service. That does not mean we can’t
24 use the sample companies as proxies, it means we can’t ignore the plethora of
25

26 ¹¹ Cassidy Direct at 43.

¹² Bourassa COC Direct at 17–23, 40–41.

1
2 evidence that firm size does matter. If the differences in risk between small
3 utilities like VWC and the large, publicly traded water utilities used to estimate the
4 cost of equity are ignored, VWC's equity cost will be understated and
5 unreasonable.

6 **Q. IS FIRM SIZE A UNIQUE RISK?**

7 A. No. The firm size is a systematic risk factor.¹³ We know that based on empirical
8 financial data that the firm size phenomenon in the market is real. Moreover, we
9 know that the capital asset pricing model is incomplete and does not fully account
10 for the higher returns on small company stocks. In other words, the higher risks
11 associated with smaller firms is not fully accounted for by beta.

12 With respect to the relationship between firm size and return, *Morningstar*
13 states:¹⁴

14 One of the most remarkable discoveries of modern finance is
15 that of a relationship between firm size and return. The
16 relationship cuts across the entire size spectrum but is most
17 evident among smaller companies which have higher returns
than larger ones. Many studies have looked at the effect of
firm size and return...

18 With respect to the CAPM, *Morningstar* states:¹⁵

19 The firm size phenomenon is remarkable in several ways.
20 First, the greater risk of small stocks does not, in the context
of the capital asset pricing model (CAPM), fully account for
21 their higher returns over the long term. In the CAPM only
systematic, or beta risk, is rewarded; small company stocks
22 have had returns in excess of those implied by their betas.

23 **Q. AT PAGE 43, MR. CASSIDY SUGGESTS WATER AND OTHER SMALL**
24 **FIRMS DO NOT REQUIRE A RISK PREMIUM BECAUSE SUCH RISKS**

25 ¹³Shannon P. Pratt and Roger J. Grabowski. *Cost of Capital: Applications and Examples, Fourth Edition*.
26 John Wiley and Sons, 2010.p. 56.

¹⁴ Morningstar, *Ibbotson SBBI 2012 Valuation Yearbook*, at 85.

¹⁵*Id.* at 88.

1
2 **ARE UNSYSTEMATIC AND THUS CAN BE DIVERSIFIED AWAY. IS HE**
3 **CORRECT?**

4 A. No. Mr. Cassidy misunderstands this issue. The *Duff & Phelps* study confirms that
5 even a well-diversified portfolio of small firms is still more risky than a well-
6 diversified portfolio of larger firms. Based on studies in *Morningstar*, which I
7 discuss on page 33-34 of my direct testimony, the CAPM does not fully explain the
8 differences in risk between large and small firms. Appropriate CAPM models
9 should include size as an explanatory value, i.e.,

10
11
$$\text{Cost of Equity} = \text{risk-free rate} + \beta_1 * \text{MRP} + \beta_2 * \text{size risk premium}$$

12

13 Size is a second “systematic” risk factor. Based on these alternative versions of the
14 CAPM diversification cannot eliminate the risk of a company from being smaller
15 than the average. Mr. Cassidy’s testimony does not justify ignoring the additional
16 risk of SWC that stems from it being smaller than the publicly traded water utilities
17 in his proxy group.

18 **Q. ON PAGE 36 OF HIS TESTIMONY, MR. CASSIDY CRITICIZES YOU**
19 **FOR RELYING EXCLUSIVELY ON ANALYSTS FORECASTS OF**
20 **GROWTH. IS THIS TRUE?**

21 A. No. I rely on both historical growth rates and forecasts of growth. I just give more
22 weight to the analyst forecasts of growth. Mr. Cassidy’s criticism contradicts his
23 subsequent testimony that I give greater weight to analysts’ estimates of growth
24 which recognizes I rely on both historical and forecasted growth.
25
26

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2 **Q. ON PAGE 38 AND 39 OF HIS TESTIMONY, MR. CASSIDY CRITICIZES**
3 **YOU FOR GIVING GREATER WEIGHT TO ANALYSTS FORECASTS OF**
4 **GROWTH. PLEASE COMMENT.**

5 A. I do give more weight to the analyst forecasts of growth. That fact is not a secret.¹⁶
6 It is important to note that while Mr. Cassidy disagrees with the additional weight I
7 give the analyst forecasts, he does not say these forecasts have no merit. The
8 dispute between Mr. Cassidy and me comes down to something between 50
9 percent and my "greater" emphasis. In my direct testimony, I explained why a
10 weight greater than 50 percent should be given to analysts' estimates.¹⁷

11 **Q. ARE ANALYSTS' FORECAST ESTIMATES OF GROWTH FOR**
12 **UTILITIES UPWARDLY BIASED?**

13 A. No. Analyst's estimates of EPS growth for utilities are not upwardly biased. Dr.
14 Thomas Zepp presented studies in the recent *Arizona Water Company* rate case that
15 analysts' forecasts of growth for utilities are not upwardly biased once differences
16 in expected inflation are taken into account, and he concluded Mr. Cassidy's claims
17 of consistent upward bias in analyst forecasts of growth for utilities were not
18 supported.¹⁸ Staff did not dispute Dr. Zepp's studies and testimony on this subject.

19 Whether you agree with Dr. Zepp's studies and conclusions or not, analysts'
20 estimates of growth have been shown to be superior to historically based estimates
21 of growth for use in the DCF for utility stocks. The study by Gordon, Gordon and
22 Gould¹⁹, discussed in my direct testimony at page 30, found analysts' estimates of
23 EPS growth for the next five years provide a more useful estimate of growth

24
25 ¹⁶ Bourassa COC Direct at 30-31.

26 ¹⁷ *Id.* at 30.

¹⁸ See Rebuttal Testimony of Thomas M. Zepp at 35-37 in Docket No. W-01445A-11-310.

¹⁹ David A. Gordon, Myron J. Gordon and Lawrence I Gould, "Choice Among Methods of Estimating Share Yield," *Journal of Portfolio Management* (Spring 1989) 50-55

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2 required in the DCF model than three different historical measures of growth
3 (historical EPS, historical DPS, and historical retention growth). They explain that
4 this result makes sense because analysts would take into account such past growth
5 as indicators of future growth as well as any new information.

6 The Gordon, Gordon, and Gould study as well as the Zepp studies cast
7 doubt on whether Mr. Cassidy suggestion that the studies of analysts' forecasts in
8 general provides evidence that analysts provide poor forecasts of EPS growth for
9 utility stocks.

10 **Q. ARE THERE REASONS WHY ANALYSTS' ESTIMATES ARE NOT**
11 **UPWARDLY BIASED?**

12 A. Yes. Sources of forecast earnings growth information such as *Value Line* are in the
13 business of selling information to investors. *Value Line*, *Yahoo Finance*, and
14 *Reuters*, to name a few, do not sell stock and there is no incentive to provide
15 inaccurate, upwardly biased forecasts. If this were the case, investors would not
16 continue to buy subscriptions.

17 **Q. WHY IS EARNINGS GROWTH A MEANINGFUL GUIDE TO**
18 **INVESTORS' LONG-TERM GROWTH EXPECTATIONS?**

19 A. It is growth in earnings, after all, that will support future dividends and share
20 prices. There is an abundance of evidence attesting to the importance of earnings
21 in assessing investor expectations. The sheer volume of earnings forecasts
22 available from the investment community relative to the scarcity of dividend
23 forecasts attests to their importance. *Value Line*, *Yahoo*, and *Reuters* all provide
24 comprehensive information on investor's earnings forecasts. *Value Line's*
25 principle investment rating assigned to individual stocks, Timeliness Rank, is based
26 primarily on earnings. These investment information providers focus on earnings

1
2 growth rather than dividend growth which indicates the investment community
3 places greater importance on earnings as a measure of future long-term growth.

4 **Q. DOES THE ACCURACY OF ANALYSTS' FORECAST MATTER IF**
5 **INVESTORS RELY ON ANALYSTS' FORECASTS?**

6 A. No. Regardless of whether you agree or disagree with the accuracy of analysts'
7 forecasts, the level of accuracy is an after-the-fact evaluation with little relevance
8 to the issues at hand here. Dr. Morin states:

9
10 Because of the dominance of institutional investors and their
11 influence on individual investors, analysts' forecasts of long-
12 run growth rates provide a sound basis for estimating required
13 returns. Financial analysts exert a strong influence on the
14 expectations of many investors who do not possess the
15 resources to make their own forecasts, that is, they are a cause
16 of g. *The accuracy of these forecasts in the sense of*
17 *whether they turn out to be correct is not at issue here, as*
18 *long as they reflect widely held expectations.* As long as the
19 forecasts are typical and/or influential in that they are
20 consistent with current stock price levels, they are relevant.
21 The use of analysts' forecasts in the DCF model is sometimes
22 denounced on the grounds that it is difficult to forecast
23 earnings and dividends for only one year, let alone for longer
24 time periods. *This objection is unfounded, however,*
25 *because it is present investor expectations that are being*
26 *priced; it is the consensus forecast that is embedded in price*
and therefore in required return, and not the future as it
will turn out to be. (emphasis added)²⁰

What really matters is that analysts' forecasts strongly influence investors and
hence the market prices they are willing to pay for stocks. Analysts' growth rates
influence the prices investors will pay for stocks and thus impact the dividend
yields. The dividend yields change until the sum of the dividend yield plus the
growth rate equals investors' perceived cost of equity. Had the growth forecasts
been lower – as Mr. Cassidy suggests they should be – the stock prices would be

²⁰Roger A. Morin, *New Regulatory Finance* (2006) 298.

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2 lower and dividend yields would be higher, but there would not necessarily be any
3 difference in the ultimate estimate of the cost of equity.
4

5 **Q. HAS MR. CASSIDY OFFERED ANY EVIDENCE THAT INVESTORS DO**
6 **NOT RELY ON ANALYST ESTIMATES?**

7 A. No. Nor does he offer any evidence of the extent investors rely on historical
8 growth or on analyst estimates of future growth. Mr. Cassidy offers no quantitative
9 or conceptual argument to rebut the conclusions of Gordon, Gordon, and Gould,
10 and offers no evidence that any of the measures of past growth he has used –
11 historical EPS, historical DPS, historical sustainable growth – provide a better
12 forecast of future growth for utilities than analysts' estimates of EPS growth.

13 The bottom line – Mr. Cassidy is using Staff's inputs into the DCF model
14 mechanically without considering the reasons for using those inputs. And Staff's
15 inputs have long been skewed to give less weight to the best estimate of future
16 growth in an effort to keep down the cost of equity.

17 **Q. ON PAGE 42 OF HIS TESTIMONY, MR. CASSIDY ALSO CRITICIZES**
18 **YOU FOR USING FORECASTED INTEREST RATES FOR THE RISK-**
19 **FREE RATE IN YOUR CAPM. PLEASE RESPOND.**

20 A. I use both a current interest rate as well as forecasted interest rates on 30 year U.S.
21 Treasury Bonds as a proxy to my risk-free rate. The CAPM is a prospective
22 model, and like analysts' forecasts of growth, I believe investors rely on this
23 forward-looking information. If investors did not rely on this information *Value*
24 *Line, Blue Chip* and others would not provide this information. Mr. Cassidy
25 provides no evidence that investors do not rely on this information. This is just
26

1
2 another disagreement between Mr. Cassidy and me regarding the inputs to the
3 models.

4 **Q. DO YOU AGREE WITH MR. CASSIDY THAT AN INCREASE IN THE**
5 **PRICE OF A SHARE OF STOCK NECESSARILY REFLECTS A**
6 **DECREASE IN THE COST OF EQUITY?**

7 A. No. From the standpoint of an investor, a true market rate of return would take into
8 account *both* anticipated dividends *and* capital gains resulting from future changes
9 in the price of stock. I expect Mr. Cassidy to agree with me that the cost of equity
10 is the compensation investors expect for bearing the risk of ownership of a stock.
11 That compensation includes capital gains. So, despite the dividend yield going
12 down when the price of a share rises, it does not necessarily translate to a drop in
13 the cost of equity.

14 **Q. MR. CASSIDY BASES ONE OF HIS CAPM ESTIMATES ON RATES FOR**
15 **INTERMEDIATE-TERM TREASURY SECURITIES AND ONE ON RATES**
16 **FOR LONG-TERM TREASURY SECURITIES. SHOULD RATES FOR**
17 **INTERMEDIATE-TERM TREASURIES BE USED IN A CAPM**
18 **ANALYSIS?**

19 A. No. It is inappropriate to use either a short-term or an intermediate-term Treasury
20 security to determine the value of the risk-free rate. *Morningstar* explains the
21 appropriate choice for the risk-free rate is no less than the expected return for long-
22 term Treasury security.

23 The horizon of the chosen Treasury security should
24 match the horizon on whatever is being valued. When
25 valuing a business that is being treated as a going
26 concern, the appropriate Treasury yield should be that
of a long-term Treasury bond. Note that the horizon is
a function of the investment, not the investor. If an
investor plan to hold stock in a company for only five
years, the yield on a five-year Treasury note would not

1
2 be appropriate since the company will continue to exist
3 beyond those five years...

4 Companies are entities that generally have no
5 defined life span; when determining a company's
6 value, it is important to use a long-term discount rate
7 because the life of the company is assumed to be
8 infinite.²¹

9 As Dr. Morin concurs with *Morningstar* and states:

10 At the conceptual level, because common stock is a
11 long-term investment and because cash flows to
12 investors in the form of dividends last indefinitely, the
13 yield on very long-term government bonds, namely the
14 30-year Treasury bonds, is the best measure of the risk
15 free rate for use in the CAPM and risk premium
16 methods. The expected stock return is based upon
17 long-term cash flows, regardless of an individual's
18 holding period. Utility asset investments generally
19 have long-term useful lives and should be
20 correspondingly matched with longer-term maturity
21 financing instruments. *Moreover, short-term
22 Treasury bill yields reflect the impact of factors
23 different from those influencing the yields on longer
24 term securities such as common stock.(emphasis
25 added)*²²

26 **Q. ARE THERE OTHER REASONS FOR NOT USING SHORT-TERM OR
27 INTERMEDIATE-TERM TREASURY SECURITIES?**

28 A. Yes. According to Dr. Morin, "short-term rates are volatile, fluctuate widely, and
29 are subject to more random disturbances than long-term rates leading to volatile
30 and unreliable equity returns."²³ He goes on to state that "on grounds of stability
31 and consistency, the yields on long-term Treasury bonds match more closely with
32 expected common stock returns."²⁴ For example, the Federal Reserve has
33 announced that it will continue to hold interest rates down to support economic

34 ²¹*Morningstar, supra* at 44, 55.

35 ²²Morin, *supra* at 151-152.

36 ²³*Id.* at 152.

²⁴*Id.*

1
2 recovery, resulting in extremely low short- and intermediate-term Treasury rates –
3 precisely the type of manipulation that Dr. Morin warns of in his text on regulatory
4 finance, quoted above.²⁵
5

6 **Q. ON PAGE 39 AND 40 OF MR. CASSIDY'S TESTIMONY, HE STATES**
7 **THE DIVIDEND YIELD IN YOUR DIRECT TESTIMONY WAS**
8 **OVERSTATED BECAUSE OF INCORRECT SPOT SHARE PRICES.**
9 **PLEASE COMMENT.**

10 A. It is true that my spot prices were for not the spot prices for the date indicated in
11 my schedules. This was due to linking error to the underlying *Value Line Analyzer*
12 data which I employed. Correcting this error would have reduced my expected
13 dividend yield by about 20 basis points and lowered my DCF results by the same.
14 However, my recommendation of 10.4 percent would not have changed.

15 **Q. WHY NOT?**

16 A. Because correcting the spot prices, which are generally higher, would have
17 increased the market-to-book ratios which in turn would have reduced my market
18 based Hamada financial risk adjustment by about 20 basis points.

19 **Q. ON PAGE 42 AND 43 OF MR. CASSIDY'S TESTIMONY, HE STATES**
20 **YOUR CURRENT MARKET RISK PREMIUM AND YOUR 3-5 YEAR**
21 **PRICE APPRECIATION ESTIMATE ARE OVER-STATED. PLEASE**
22 **COMMENT.**

23 A. Mr. Cassidy is correct that both my market dividend yield and my market 3-5 year
24 price appreciation as shown on Schedule D-411 are higher than his spot dividend
25 yield and spot 3-5 year price appreciation but this does not mean my they are over-
26

²⁵See, e.g., *Blue Chip Financial Forecasts*, February, 2013.

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2 stated, nor is my resulting current market risk premium ("MRP") over-stated. Had
3 Mr. Cassidy computed his current MRP in the same frame as I did, he would have
4 computed a similar result. The current MRP used in my rebuttal analysis is 12.37
5 percent which is an average of the prior 3 months which ranged from 11.52 percent
6 to 12.90 percent. As I stated in my direct testimony, I do not use spot dividend
7 yields or spot 3-5 year price appreciation to estimate my current MRP because spot
8 rates cause significant volatility in the computed current MRP.²⁶ As you will find
9 in Rebuttal Schedule D-4.11, the current market risk premium estimates fluctuate
10 significantly over-time. I prefer to use averages of several months; typically 3-12
11 months depending on the prevailing trend in the current market risk premium
12 which help to eliminate the volatility. I believe my approach provides a more
13 stable measurement of the current market risk premium. For example, if the
14 current market risk premium were measured using the spot rate approach for April
15 2011, the current market risk premium would have been 7.82 percent. The current
16 MRP is would have been significantly higher the current MRP was measured just a
17 few month earlier or just a few month later. For example, the February 2011
18 current MRP was 11.26 percent and the July 2011 current MRP was 13.82 percent.
19 The current MRP averaged over 15 percent in the 12 months following February
20 2011.

21 **Q. DO YOU HAVE ANY FURTHER COMMENTS?**

22 A. Just that as I testified above, when all the numbers and models and financial theory
23 are set aside, Staff's recommendation is far too low to pass the smell test and
24 should be rejected.
25
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²⁶ Bourassa COC Direct at 36.

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Q. WELL MR. BOURASSA, YOU ADMIT THAT THE COMMISSION HAS NOT ADOPTED YOUR RECOMMENDATIONS BEFORE, DON'T YOU? WHY SHOULD THIS TIME BE DIFFERENT?

A. I can only note that each Commission reviews every rate case on its own merits, or "case-by-case" as Staff likes to say. And I have made more changes to my approach on cost of capital than I can possibly recall in response to many of my arguments being rejected. I have recognized a lot of realities of ratemaking and tried to find a reasonable balance with financial theory and financial reality. I will continue to ask the Commission to appropriately balance ratemaking and finance and the interests of shareholders and ratepayers.

Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY ON COST OF CAPITAL?

A. Yes, although my silence on any of the issues, matters or findings addressed in the testimony of Staff does not constitute my acceptance of their positions on such issues, matters or findings.

EXHIBIT TJB-COC-RB1

Vail Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
Based on 2013 Duff and Phelps Risk Premium Study Data

TABLE 1

	Company	Measures of size (Millions)					
		MV Equity ¹	Book Equity ¹	MVIC ¹	5 Yr Avg. Net Income	Total Assets ²	5 Yr Avg. EBITDA ³
1.	American States	\$ 1,039	\$ 408	\$ 1,380	\$ 32	\$ 1,192	\$ 120
2.	Aqua America	\$ 4,129	\$ 1,251	\$ 5,525	\$ 113	\$ 4,072	\$ 407
3.	California Water	\$ 862	\$ 450	\$ 1,344	\$ 37	\$ 1,692	\$ 128
4.	Connecticut Water	\$ 260	\$ 119	\$ 395	\$ 10	\$ 425	\$ 23
5.	Middlesex	\$ 310	\$ 177	\$ 442	\$ 12	\$ 489	\$ 38
6.	SJW Corp.	\$ 517	\$ 264	\$ 861	\$ 20	\$ 935	\$ 87
	Vail Water Company	NA	\$ 11.0	NA	\$ 0.6	\$ 13.0	\$ 1.1

¹ From Zacks Investment Research data

² From Zacks Investment Research. From E-1 for subject utility.

³ Net Income. From Zacks Investment Research and Company ACC reports

Net Income Data		Company					
		2011	2010	2009	2008	2007	Average
American States	AWR	\$ 45.9	\$ 33.2	\$ 29.5	\$ 22.0	\$ 28.0	\$ 31.7
Aqua America	WTR	\$ 143.1	\$ 124.0	\$ 104.4	\$ 97.9	\$ 95.0	\$ 112.9
California Water	CWT	\$ 37.7	\$ 37.7	\$ 40.6	\$ 39.8	\$ 31.2	\$ 37.4
Connecticut Water	CTWS	\$ 11.3	\$ 9.8	\$ 10.2	\$ 9.4	\$ 8.8	\$ 9.9
Middlesex	MSEX	\$ 13.4	\$ 14.3	\$ 10.0	\$ 12.2	\$ 11.8	\$ 12.4
SJW Corp.	SJW	\$ 20.9	\$ 24.4	\$ 15.2	\$ 21.5	\$ 19.3	\$ 20.2
Vail Water Company		\$ 0.6	\$ 0.7	\$ 0.7	\$ 0.5	\$ 0.6	\$ 0.6

Net Income data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

⁴ Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). From Zacks Investment Research and Company ACC reports.

EBITDA Data		Company					
		2011	2010	2009	2008	2007	Average
American States	AWR	\$ 133.3	\$ 134.4	\$ 122.6	\$ 105.9	\$ 102.8	\$ 119.8
Aqua America	WTR	\$ 397.8	\$ 473.2	\$ 415.2	\$ 384.7	\$ 364.5	\$ 407.1
California Water	CWT	\$ 143.3	\$ 155.7	\$ 125.5	\$ 122.1	\$ 95.6	\$ 128.4
Connecticut Water	CTWS	\$ 24.2	\$ 22.5	\$ 20.3	\$ 21.1	\$ 27.9	\$ 23.2
Middlesex	MSEX	\$ 34.6	\$ 43.3	\$ 34.6	\$ 38.6	\$ 36.6	\$ 37.6
SJW Corp.	SJW	\$ 87.1	\$ 75.4	\$ 93.5	\$ 99.7	\$ 77.7	\$ 86.7
Vail Water Company		\$ 1.1	\$ 1.2	\$ 1.1	\$ 1.0	\$ 1.1	\$ 1.1

EBITDA data for publicly traded water utilities from Zacks Investment Research and/or Yahoo Finance

EBITDA data for subject utility from E-1 and/or ACC reports

	Company	Symbol	MV	Book Equity	MVIC	Net Income	Total Assets	5 Yr Avg. EBITDA	Average
			%	%	%	%	%	%	%
1.	American States	AWR	8.82%	8.84%	8.74%	9.41%	8.77%	9.19%	8.96%
2.	Aqua America	WTR	6.90%	7.61%	6.83%	7.98%	7.28%	7.75%	7.39%
3.	California Water	CWT	9.07%	8.73%	8.77%	9.22%	8.35%	9.11%	8.88%
4.	Connecticut Water	CTWS	10.74%	10.20%	10.46%	10.72%	10.02%	11.13%	10.54%
5.	Middlesex	MSEX	10.49%	9.76%	10.31%	10.47%	9.85%	10.56%	10.24%
6.	SJW Corp.	SJW	9.78%	9.32%	9.39%	9.92%	9.07%	9.57%	9.51%
	Average (unlevered)		9.30%	9.08%	9.08%	9.62%	8.89%	9.55%	9.25%
	Vail Water Company		NA	12.82%	NA	13.86%	14.25%	14.74%	13.92%
									Indicated size premium 4.66%

Vail Water Company
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on 2013 Duff and Phelps Risk Premium Study Data

Unlevered Portfolio Beta
 (from 2012 Duff & Phelps RP Study - Table C)

TABLE 3

	Company	Symbol	Unlevered Portfolio Beta (β_u)						
			(Table C-1)	(Table C-2)	(Table C-4)	(Table C-3)	(Table C-5)	(Table C-6)	Average
1.	American States	AWR	0.94	0.96	0.95	0.95	0.97	0.95	0.95
2.	Aqua America	WTR	0.87	0.89	0.86	0.88	0.83	0.82	0.86
3.	California Water	CWT	0.98	0.96	0.95	0.95	0.94	0.96	0.96
4.	Connecticut Water	CTWS	0.96	0.98	0.97	0.97	0.99	1.03	0.98
5.	Middlesex	MSEX	0.96	1.00	0.98	0.97	0.99	0.99	0.98
6.	SJW Corp.	SJW	0.98	0.98	0.98	0.99	0.97	0.95	0.98
	Average		0.95	0.96	0.95	0.95	0.95	0.95	0.95
	Vail Water Company		NA	0.98	NA	1.01	1.05	1.03	1.02

Vail Water Company
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on 2013 *Duff and Phelps* Risk Premium Study Data

MRP Estimates Using Duff & Phelps Study (Relevered)

Relevered Realized Risk Premium

$$RP_{\text{relevered}} = RP_{\text{unlevered}} + W_d/W_e \cdot (\beta_u - \beta_d) \cdot RP_{\text{market}}$$

Where β_u = unlevered portfolio beta

β_d = debt beta, assumed to be 0.1

W_d = percentage of debt in capital structure

W_e = percentage of equity in capital structure

$RP_{\text{unlevered}}$ = unlevered realized risk premium from Table 2

RP_{market} = general equity risk premium for the market since 1963 (4.5%)

TABLE 4

	Symbol	Company	MRP _{mps} (Relevered)							Average
			W_d/W_e	MV Equity	Book Equity	MVIC	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	
1.	AWR	American States	32.7%	10.05%	10.11%	9.99%	10.66%	10.05%	10.44%	10.22%
2.	WTR	Aqua America	33.8%	8.07%	8.81%	7.98%	9.16%	8.39%	8.84%	8.54%
3.	CWT	California Water	55.8%	11.29%	10.89%	10.91%	11.36%	10.46%	11.27%	11.03%
4.	CTWS	Connecticut Water	52.0%	12.75%	12.26%	12.50%	12.76%	12.11%	13.31%	12.61%
5.	MSEX	Middlesex	42.6%	12.14%	11.49%	11.99%	12.14%	11.56%	12.27%	11.93%
6.	SJW	SJW Corp.	66.5%	12.42%	11.95%	12.02%	12.58%	11.67%	12.11%	12.13%
Average MRP (Relevered)			47.26%	11.12%	10.92%	10.90%	11.44%	10.71%	11.37%	11.08%
Vail Water Company			0.00%	NA	12.82%	NA	13.86%	14.25%	14.74%	13.92%

Vail Water Company
 COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on 2013 Duff and Phelps Risk Premium Study Data

Equity Risk Premium Adjustment and Other metrics used in Build-up Method

TABLE 5

[1] Estimate of Current Market Risk Premium (RP_{market})	5.00%	<<<< Current Duff and Phelps recommendation
[2] Risk Premium Assumed in Duff & Phelps Study (1963-2012) ¹	4.50%	
[3] Equity Risk Premium Adjustment ([1] - [2])	0.50%	
[4] Average MRP (relevered) for publicly traded water companies (from Table 4)	11.08%	
[5] MRP (relevered) for publicly traded water companies (RP_{m+s}) ([3] + [4])	11.58%	
[6] Equity Risk Premium Adjustment ([3])	0.50%	
[7] Average MRP (relevered) for subject utility company (from Table 4)	13.92%	
[8] MRP (relevered) for subject utility company (RP_{m+s}) ([6] + [7])	14.42%	
[9] Industry Risk Premium (From Ibbotson for SIC 494 Water Supply Industry Table 3-5)	-4.83%	
[10] Adjustment Factor to Industry Risk Premium ([2] / 6.7%) ¹	0.7463	
[11] Adjusted Industry Risk Premium (R_i) ([9] x [10])	-3.60%	
[12] Risk Free Rate (R_f) ²	2.77%	

¹ From Duff and Phelps Risk Premium Report 2013.

² Yield on 20 Yr U.S. Treasury March 6, 2013 (Federal Reserve)

Vail Water Company
COST OF EQUITY (COE) USING RISK PREMIUM BUILD-UP METHOD
 Based on 2013 *Duff and Phelps* Risk Premium Study Data

Cost of Equity (COE) Estimate using Build-up Method

$$E(R_i) = R_f + RP_{m+s} + RP_i + RP_u$$

Where:

$E(R_i)$ = Expected (Indicated) rate of return

R_f = Risk-free rate of return. See Table 5.

RP_{m+s} = Market risk premium including size premium. See Table 4.

RP_i = Industry risk premium (adjusted) See Table 5.

RP_u = Company-specific risk premium

TABLE 6

	Sample Publicly Traded Water	Vail Water Company
R_f =	Utilities 2.77%	2.77%
RP_{m+s} =	See Table 4	See Table 4
RP_i =	-3.60%	-3.60%
RP_u =	0.00%	0.00%

	MV	Book Equity	5 Yr Avg. Net Income	Total Assets	5 Yr Avg. EBITDA	Average
1. American States	Equity 9.72%	9.77%	MVIC 9.66%	9.72%	10.11%	9.88%
2. Aqua America	7.74%	8.47%	7.65%	8.06%	8.51%	8.21%
3. California Water	10.95%	10.56%	10.58%	10.12%	10.93%	10.69%
4. Connecticut Water	12.42%	11.92%	12.16%	11.77%	12.97%	12.28%
5. Middlesex	11.81%	11.15%	11.66%	11.22%	11.93%	11.60%
6. SJW Corp.	12.08%	11.62%	11.69%	11.33%	11.78%	11.79%
Average COE estimate	10.79%	10.58%	10.57%	10.37%	11.04%	10.74%
Vail Water Company	NA	12.48%	NA	13.53%	14.41%	13.58%

Symbol	Company
AWR	American States
WTR	Aqua America
CWT	California Water
CTWS	Connecticut Water
MSEX	Middlesex
SJW	SJW Corp.

REBUTTAL D SCHEDULES

Vail Water Company
Test Year Ended December 31, 2011
Summary of Cost of Capital

Exhibit
Rebuttal Schedule D-1
Page 1
Witness: Bourassa

Line No.	Item of Capital	Actual End of Test Year				Adjusted End of Test Year				End of Projected Year			
		Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	-	0.00%	0.000%	0.00%	-	0.00%	0.000%	0.00%	-	0.00%	0.000%	0.00%
2													
3	Stockholder's Equity	4,373,528	100.00%	10.10%	10.10%	7,270,669 ^{1,2,3,4}	100.00%	10.10%	10.10%	7,695,152	100.00%	10.10%	10.10%
4													
5	Totals	4,373,528	100.00%		10.10%	7,270,669	100.00%		10.10%	7,695,152	100.00%		10.10%
6													
7													
8	¹ Adjustment for Equity for Rebuttal A/D Adj. B-2, p. 4	\$ 120,545											
9	² Adjustment for Equity for Rebuttal CIAC amortization Adj. B-2, p. 5	\$ 2,076											
10	³ Adjustment for Equity for Direct A/D Adj. B-2, p. 4	\$ 2,710,101											
11	⁴ Adjustment for Equity for Direct CIAC amortization Adj. B-2, p. 5	\$ 64,419											
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SUPPORTING SCHEDULES:

RECAP SCHEDULES:
A-3

Vail Water Company
Test Year Ended December 31, 2011
Cost of Preferred Stock

Exhibit
Rebuttal Schedule D-3
Page 1
Witness: Bourassa

Line
No.

End of Test Year

End of Projected Year

Description of Issue	Shares Outstanding	Amount	Dividend Requirement	Shares Outstanding	Amount	Dividend Requirement
-------------------------	-----------------------	--------	-------------------------	-----------------------	--------	-------------------------

NOT APPLICABLE, NO PREFERRED STOCK ISSUED OR OUTSTANDING

SUPPORTING SCHEDULES:
E-1

RECAP SCHEDULES:
D-1

Vail Water Company
Test Year Ended December 31, 2011
Cost of Common Equity

Exhibit
Rebuttal Schedule D-4
Page 1
Witness: Bourassa

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The Company is proposing a cost of common equity of 10.10% .

SUPPORTING SCHEDULES:
D-4.1 to D-4.16

RECAP SCHEDULES:
D-1

**Vail Water Company
Summary of Results**

**Exhibit
Rebuttal Schedule D-4.1**

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Method

Range DCF Constant Growth Estimates¹

Range of CAPM Estimates²

Average of midpoint estimates

Financial Risk Adjustment³

Small Company Risk Premium⁴

Indicated Cost of Equity

Recommended Cost of Equity

Low

High

Midpoint

8.7%

9.7%

9.2%

8.7%

12.7%

10.7%

8.7%

11.2%

9.9%

-0.8%

-0.8%

-0.8%

1.0%

1.0%

1.0%

8.9%

11.4%

10.1%

10.1%

¹ See Schedule D-4-8

² See Schedule D-4.12

³ See Schedule D-4.13, Testimony

⁴ See Schedule D-4.16, Testimony

Vail Water Company
Selected Characteristics of Sample Group of Water Utilities

Exhibit
Rebuttal Schedule D-4.2

Line No.	Company ¹	% Water Revenues	Operating Revenues (millions)	Net Plant (millions)	S&P Bond Rating	Moody's Bond Rating	Allowed ROE
1	1. American States	68%	\$ 449.7	\$ 912.0	A+	A2	9.99
2	2. Aqua America	96%	\$ 755.7	\$ 3,863.4	AA-	NR	10.33
3	3. California Water	100%	\$ 541.5	\$ 1,443.1	AA-	NR	9.99
4	4. Connecticut Water	100%	\$ 79.8	\$ 422.6	A	NR	9.75
5	5. Middlesex	89%	\$ 106.6	\$ 433.3	A	NR	10.15
6	6. SJW Corp.	96%	\$ 261.4	\$ 870.5	A	NR	9.99
7							
8							
9							
10							
11	Average	92%	\$ 365.8	\$ 1,324.2			10.03
12							
13	Vail Water Company						
14	(Adjusted as of December 31, 2012)	68%	\$ 2.3	\$ 16.5	NR	NR	
15							
16							
17							
18							
19							
20							
21							
22							
23							
24							
25							

¹AUS Utility Reports (March 2013).

Vail Water Company
Capital Structures

Exhibit
Rebuttal Schedule D-4.3

No.	Company	Book Value ¹		Market Value ¹	
		Long-Term Debt	Common Equity	Long-Term Debt	Common Equity
1	1. American States	45.5%	54.5%	24.7%	75.3%
2	2. Aqua America	52.7%	47.3%	25.3%	74.7%
3	3. California Water	51.7%	48.3%	35.8%	64.2%
4	4. Connecticut Water	53.2%	46.8%	34.2%	65.8%
5	5. Middlesex	42.8%	57.2%	29.9%	70.1%
6	6. SJW Corp.	56.6%	43.4%	39.9%	60.1%
7					
8					
9					
10					
11	Average	50.4%	49.6%	31.6%	68.4%
12					
13	Vail Water Company				
14	(Proforma)	0.0%	100.0%	N/A	N/A
15					
16					

¹ Value Line Analyzer Data (March 6, 2013)

² Adjusted Per Schedule D-1

Vail Water Company
Comparisons of Past and Future Estimates of Growth

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
1							
2							
3							
4							
5							
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29							

Five-year historical average annual changes

Company	Price ¹	Book Value ²	EPS ²	DPS ²	Average Col 1-4	Average Future Growth ³	Average of Future and Historical Growth Col 5-6
1. American States	9.12%	5.50%	10.50%	3.00%	7.03%	5.83%	6.43%
2. Aqua America	5.40%	6.00%	6.00%	8.00%	6.35%	6.06%	6.20%
3. California Water	NMF	5.00%	5.00%	1.00%	3.67%	6.00%	4.83%
4. Connecticut Water	7.90%	3.00%	4.00%	1.50%	4.10%	6.80%	5.45%
5. Middlesex	4.56%	5.00%	2.00%	1.50%	3.26%	4.85%	4.06%
6. SJW Corp.	NMF	4.50%	NMF	5.00%	4.75%	11.00%	7.88%
GROUP AVERAGE	6.74%	4.83%	5.50%	3.33%	4.86%	6.76%	5.81%
GROUP MEDIAN	6.65%	5.00%	5.00%	2.25%	4.43%	6.03%	5.83%

¹ Average of changes in annual stock prices ending on December 31 through 2012. Data from Yahoo Finance website.

² Value Line Analyzer Data, March 6, 2013

³ See Schedule D-4.6.

Line No.	[1]	[2]	[3]	[4]	[5]	[6]	[7]
	Ten-year historical average annual changes						
	Company	Price¹	Book Value²	EPS²	DPS²	Average Future Growth³	Average of Future and Historical Growth
1	1. American States	10.41%	5.00%	5.00%	2.00%	5.83%	5.72%
2	2. Aqua America	7.70%	8.50%	7.00%	7.50%	6.06%	6.87%
3	3. California Water	6.27%	5.00%	4.00%	1.00%	6.00%	5.03%
4	4. Connecticut Water	4.80%	4.00%	0.50%	1.50%	6.80%	4.75%
5	5. Middlesex	5.14%	4.50%	2.50%	1.50%	4.85%	4.13%
6	6. SJW Corp.	6.99%	5.50%	2.00%	5.00%	11.00%	7.94%
7							
8							
9							
10							
11							
12							
13							
14							
15	GROUP AVERAGE	6.88%	5.42%	3.50%	3.08%	6.76%	5.74%
16	GROUP MEDIAN	6.63%	5.00%	3.25%	1.75%	6.03%	5.38%
17							
18							
19							
20							
21							
22							
23							
24							
25							
26							
27							
28							

¹ Average of changes in annual stock prices ending December 31, 2011. Data from Yahoo Finance website.

² Value Line Analyzer Data, March 6, 2013.

³ See Schedule D-4.6.

Vail Water Company
Analysts Forecasts of Earnings Per Share Growth **Exhibit**
Rebuttal Schedule D-4.6

Line No.	[1]	[2]	[3]	[4]
1				
2				
3				
4				
5				
6	ESTIMATES OF EARNINGS GROWTH			
7	<u>Company</u>	<u>Reuters¹</u>	<u>Yahoo¹</u>	<u>Value</u>
8	1. American States	6.00%	6.00%	Line ¹ 5.50%
9	2. Aqua America	6.27%	4.90%	7.00%
10	3. California Water	6.00%	6.00%	6.00%
11	4. Connecticut Water		6.10%	7.50%
12	5. Middlesex	neg	2.70%	7.00%
13	6. SJW Corp.		14.00%	8.00%
14				
15	GROUP AVERAGE	6.09%	6.62%	6.83%
16	GROUP MEDIAN			6.76%
17				6.03%
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				

¹ Data as of March 6, 2013

² Where no data available or single estimate, average of other utilities assumed to estimate for utility.

Line

No.

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Company	Current Stock Price (P ₀) ¹	Current Dividend (D ₀) ¹	Current Dividend Yield (D ₀ /P ₀) ¹	Average Annual Dividend Yield (D ₀ /P ₀) ^{1,2}
1. American States	\$ 55.29	\$ 1.10	1.99%	3.20%
2. Aqua America	\$ 29.73	\$ 0.63	2.12%	2.85%
3. California Water	\$ 20.63	\$ 0.62	3.01%	3.36%
4. Connecticut Water	\$ 29.54	\$ 0.94	3.18%	3.62%
5. Middlesex	\$ 19.75	\$ 0.73	3.70%	4.02%
6. SJW Corp.	\$ 27.79	\$ 0.69	2.48%	2.94%
Average			2.75%	3.33%
Median			2.74%	3.28%

¹ Value Line Analyzer Data. Stock prices as of March 6, 2013.

² Average Annual Dividend is dividends declared per share for a year divided by the average annual price of the stock in the same year, expressed as a percentage. For comparison purposes only.

Vail Water Company
Discounted Cash Flow Analysis
DCF Constant Growth

Exhibit
Rebuttal Schedule D-4.8

Line No.	[1] Average Spot Dividend <u>Yield (D_0/P_0)¹</u>	[2] Expected Dividend <u>Yield (D_1/P_0)²</u>	[3] <u>Growth (g)</u>	[4] Indicated Cost of Equity k=Div Yld + g (Cols 2+3)
8	DCF - Past and Future Growth	2.75%	³ 5.81%	8.7%
10	DCF - Future Growth	2.75%	⁴ 6.76%	9.7%
13	Average	2.75%	6.28%	9.2%

¹ Spot Dividend Yield = D_0/P_0 . See Schedule D-4.7.

² Expected Dividend Yield = $D_1/P_0 = D_0/P_0 * (1+g)$.

³ Growth rate (g). Average of Past and Future Growth. See Schedule D-4.4, column 7

⁴ Growth rate (g). Average of Analyst Estimates Future Growth. See Schedule D-4.6.

Line No.
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Vail Water Company
Market Betas

Exhibit
Rebuttal Schedule D-4.9

Line
No.

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Company		Beta (β) ¹
1.	American States	0.70
2.	Aqua America	0.60
3.	California Water	0.65
4.	Connecticut Water	0.75
5.	Middlesex	0.70
6.	SJW Corp.	0.85
Average		0.71

¹ Value Line Investment Analyzer data (March 6, 2013)

Note: Beta is a relative measure of the historical sensitivity of a stock's price to overall fluctuations in the New York Stock Exchange Composite Index. A Beta of 1.50 indicates a stock tends to rise (or fall) 50% more than the New York Stock Exchange Composite Index. The "Beta coefficient" is derived from a regression analysis of the relationship between weekly percent-age changes in the price of a stock and weekly percentage changes in the NYSE Index over a period of five years. In the case of shorter price histories, a smaller time period is used, but two years is the minimum. The Betas are adjusted for their long-term tendency to converge toward 1.00.

Vail Water Company
Forecasts of Long-Term Interest Rates
2012-14

Exhibit
Rebuttal Schedule D-4.10

Line No.	Description	Spot Feb. 2013	2014	2015	Average
1					
2					
3					
4					
5					
6	Blue Chip Consensus Forecasts ¹	3.2%	3.6%	4.3%	3.7%
7					
8	Value Line ²	3.2%	4.6%	4.5%	4.1%
9					
10	Average				3.9%
11					
12					
13					
14					

¹ December 2012 Blue Chip Financial Forecasts consensus forecast of 30 Year U.S. Treasury

² Value Line Quarterly forecast, dated February 22, 2013, Long-term Treasury

15
16
17
18
19
20
21
22
23
24

Vail Water Company
Computation of Current Market Risk Premium

Line No.	Month	Dividend Yield (D_t/P_t) ¹	Expected Dividend Yield (D_t/P_t) ²	Growth (g) ³	Expected Market Return (k)	Monthly Average 30 Year Treasury Rate ⁴	Market Risk Premium (MRP)
1							
2							
3	Jan 2011	2.34%	2.60%	+ 11.10%	= 13.70%	= 4.52%	= 9.18%
4	Feb	2.41%	2.73%	+ 13.16%	= 15.89%	= 4.65%	= 11.24%
5	Mar	2.35%	2.64%	+ 12.33%	= 14.97%	= 4.51%	= 10.46%
6	April	1.83%	2.02%	+ 10.30%	= 12.32%	= 4.50%	= 7.82%
7	May	1.95%	2.18%	+ 11.76%	= 13.94%	= 4.29%	= 9.65%
8	June	1.97%	2.21%	+ 12.11%	= 14.32%	= 4.23%	= 10.09%
9	July	2.23%	2.58%	+ 15.51%	= 18.09%	= 4.27%	= 13.82%
10	Aug	2.73%	3.24%	+ 18.51%	= 21.75%	= 3.65%	= 18.10%
11	Sept	2.88%	3.47%	+ 20.40%	= 23.87%	= 3.18%	= 20.69%
12	Oct	2.60%	3.03%	+ 16.35%	= 19.38%	= 3.13%	= 16.25%
13	Nov	2.75%	3.24%	+ 17.89%	= 21.13%	= 3.02%	= 18.11%
14	Dec 2011	2.70%	3.17%	+ 17.41%	= 20.58%	= 2.98%	= 17.60%
15	Jan 2012	2.61%	2.98%	+ 14.18%	= 17.16%	= 3.03%	= 14.13%
16	Feb	2.60%	2.99%	+ 15.01%	= 18.00%	= 3.11%	= 14.89%
17	Mar	2.36%	2.65%	+ 12.33%	= 14.98%	= 3.28%	= 11.70%
18	April	2.62%	3.02%	+ 15.22%	= 18.24%	= 3.18%	= 15.06%
19	May	2.86%	3.38%	+ 18.12%	= 21.50%	= 2.93%	= 18.57%
20	June	2.73%	3.18%	+ 16.59%	= 19.77%	= 2.70%	= 17.07%
21	July	2.79%	3.29%	+ 18.10%	= 21.39%	= 2.59%	= 18.80%
22	Aug	2.73%	3.17%	+ 16.23%	= 19.40%	= 2.77%	= 16.63%
23	Sept	2.67%	3.07%	+ 14.95%	= 18.02%	= 2.88%	= 15.14%
24	Oct	2.71%	3.14%	+ 15.81%	= 18.95%	= 2.90%	= 16.05%
25	Nov	2.74%	3.15%	+ 14.88%	= 18.03%	= 2.80%	= 15.23%
26	Dec 2012	2.62%	2.95%	+ 12.63%	= 15.58%	= 2.88%	= 12.70%
27	Jan 2013	2.56%	2.86%	+ 11.74%	= 14.60%	= 3.08%	= 11.52%
28	Feb	2.60%	2.94%	+ 13.13%	= 16.07%	= 3.17%	= 12.90%
29							
30							
31	Recommended	2.59%	2.92%	+ 12.50%	= 15.42%	= 3.04%	= 12.37%
32							
33	Short-term Trends						
34	Recent Twelve Months Avg	2.67%	3.07%	+ 14.98%	= 18.04%	= 2.93%	= 15.11%
35	Recent Nine Months Avg	2.68%	3.08%	+ 14.90%	= 17.98%	= 2.86%	= 15.12%
36	Recent Six Months Avg	2.65%	3.02%	+ 13.86%	= 16.87%	= 2.95%	= 13.92%
37	Recent Three Months Avg	2.59%	2.92%	+ 12.50%	= 15.42%	= 3.04%	= 12.37%
38							
39							
40							
41							
42							
43							
44							

¹ Average Current Dividend Yield (D_t/P_t) of dividend paying stocks. Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

² Expected Dividend Yield (D_t/P_t) equals average current dividend yield (D_0/P_0) times one plus growth rate(g).

³ Average 3-5 year price appreciation (annualized). Data from Value Line Investment Analyzer Software Data - Value Line 1700 Stocks

⁴ Monthly average 30 year U.S. Treasury. Federal Reserve.

Vail Water Company

Capital Asset Pricing Model (CAPM)

Exhibit
Rebuttal Schedule D-4.12

Line No.	Rf ¹	+	beta ³	x	Rp	=	k
1							
2							
3	3.9%	+	0.71	x	6.7% ⁴	=	8.7%
4							
5	3.9%	+	0.71	x	12.4% ⁵	=	12.7%
6							
7							10.7%
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							

¹ Forecasts of long-term treasury yields. See Schedule D-4.10.

² Value Line Investment Analyzer data. See Schedule D-4.9.

³ Historical Market Risk Premium from (Rp) MorningStar S&P 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012.

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11.

Vail Water Company
Financial Risk Computation

Exhibit
Rebuttal Schedule D-4.13

Line No.								
1	<u>CAPM</u>							
2		<u>Rf</u>	+	<u>β</u>	x	<u>(Rp)</u>	=	<u>k</u>
3	Historical Market Risk Premium	3.9%	1	0.71	2	6.7%	3	8.7%
4	Current Market Risk Premium	3.9%	1	0.71	2	12.4%	4	12.7%
5								
6	Average							10.7%
7								
8								
9	<u>CAPM Relevered Beta</u>							
10		<u>Rf</u>	+	<u>β</u>	x	<u>(Rp)</u>	=	<u>k</u>
11	Historical Market Risk Premium	3.9%	1	0.62	5	6.7%	3	8.1%
12	Current Market Risk Premium	3.9%	1	0.62	5	12.4%	4	11.6%
13								
14	Average							9.9%
15								
16	Financial Risk Adjustment							<u><u>-0.8%</u></u>
17								
18								
19								
20								
21								
22								
23								
24								
25								

¹ Forecast of long-term treasury yields. See Schedule D-4.10

² Value Line Investment Analyzer data. See Schedule D-4.9

³ Historical Market Risk Premium from (Rp) MorningStar S&P 500 2013 Valuation Yearbook Table A-1 Long-Horizon ERP 1926-2012

⁴ Computed using DCF constant growth method to determine current market return on Value Line 1700 stocks and CAPM with beta of 1.0 to compute Current Market Risk Premium (Rp). See Schedule D-4.11

⁵ Relevered beta found on Schedule D-4.15

Vail Water Company
Financial Risk Computation
Unlevered Beta

Line No.	Company	VL Beta β_L^1	Raw Beta β_L^2	Tax Rate t^3	MV Debt $\frac{D^4}{E^4}$	MV Equity $\frac{E^4}{E^4}$	Unlevered Raw Beta β_{UL}^5
1							
2							
3							
4							
5	1. American States	0.70	0.55	41.7%	24.7%	75.3%	0.46
6	2. Aqua America	0.60	0.40	32.9%	25.3%	74.7%	0.33
7	3. California Water	0.65	0.48	40.5%	35.8%	64.2%	0.36
8	4. Connecticut Water	0.75	0.63	41.3%	34.2%	65.8%	0.48
9	5. Middlesex	0.70	0.55	32.7%	29.9%	70.1%	0.43
10	6. SJW Corp.	0.85	0.78	41.1%	39.9%	60.1%	0.56
11							
12							
13	Sample Water Utilities:	0.71	0.57	38.4%	31.6%	68.4%	0.44
14							
15							
16							
17							
18							
19							

¹ Value Line Investment Analyzer data. See Schedule D-4.13

Value Line uses the historical data of the stock, but assumes that a security's beta moves toward the market average over time. The formula is as follows:

Adjusted beta = $.33 + (.67) * \text{Raw beta}$

² Raw Beta = $(VL \text{ beta} - .33) / (.67)$

³ Effective tax rates per Value Line Analyzer Data (March 6, 2013).

⁴ See Schedule D-4.3

⁵ Raw $\beta_{UL} = \text{Raw } \beta_L / (1 + (1-t)^*D/E)$

Line No. 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

Vail Water Company
Financial Risk Computation
Relevered Beta

Line No.	Unlevered Raw Beta β_{UL}^1	MV Book Debt BD^2	MV Equity Capital EC^2	Tax Rate t^3	Relevered Raw Beta $\beta_{RL} = \beta_U (1 + (1-t)BD/EC)$	VL Adjusted Relevered Beta $\beta_{RL} = .33 + .67(Raw Beta)$
1						
2						
3						
4						
5	0.44	0.0%	100.0%	22.14%	0.44	0.62
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						

¹ Unlevered Beta from Schedule D-4.14.

² Adjusted Capital Structure of Company

	BV (in Thousands)	MV (in Thousands)	MV %
Long-term Debt	\$ -	\$ -	0.00%
Preferred Stock	\$ -	\$ -	0.0%
Common Stock	\$ 7,271	\$ 16,559	100.0%
Total Capital	\$ 7,271	\$ 16,559	100.0%

(a) Current market-to-book ratio of sample water utilities. See work papers.

³ Current Tax rate based on test year at proposed rates.

**Vail Water Company
Size Premium¹**

**Exhibit
Rebuttal Schedule D-4.16**

Line No.	Beta(β)	Size Premium	Risk Premium for Small Water Utilities ⁷
1			
2			
3			
4			
5			
6	1.12	1.14%	
7			
8	1.23	1.88%	
9			
10	1.36	3.89%	
11			
12	1.41	6.10%	3.67%
13			
14			
15			
16			
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41			

Estimated Risk Premium for small water utilities⁶

0.99%

¹ Data from Table 7-8 of Morningstar, *Ibbotson SBBI 2012 Valuation Yearbook*.
² Mid-Cap companies includes companies with market capitalization between \$1,621 million and \$6,896 million.
³ Low-Cap companies includes companies with market capitalization between \$423 million and \$1,620 million.
⁴ Micro-Cap companies includes companies with market capitalization less than \$422 million.
⁵ Decile 10 includes companies with market capitalization between \$1.0 million and \$206 million.
⁶ From Table 2, Thomas M. Zepp, "Utility Stocks and the Size Effect Revisited," *The Quarterly Review of Economics and Finance*, 43 (2003), 578-582.
⁷ Computed as the weighted differences between the Decile 10 risk premium and the indicated risk premiums for the sample water utilities as shown below. Excludes risk due to differences in beta.

Market Cap.	Class	Size Premium	Difference to Decile 10	Weight	Weighted Size Premium
1. American States	\$ 1,039 Low-Cap	1.88%	4.22%	0.166667	0.70%
2. Aqua America	\$ 4,129 Mid-Cap	1.14%	4.96%	0.166667	0.83%
3. California Water	\$ 862 Low-Cap	1.88%	4.22%	0.166667	0.70%
4. Connecticut Water	\$ 260 Micro-Cap	3.89%	2.21%	0.166667	0.37%
5. Middlesex	\$ 310 Micro-Cap	3.89%	2.21%	0.166667	0.37%
6. SJW Corp.	\$ 517 Low-Cap	1.88%	4.22%	0.166667	0.70%
Weighted Size Premium for Small Companies					3.67%

- 1
- 2
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- 25
- 26

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner
BOB BURNS
Commissioner

IN THE MATTER OF THE APPLICATION
OF VAIL WATER COMPANY FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANT AND
PROPERTY AND FOR AN INCREASE IN
ITS RATES AND CHARGES BASED
THEREON.

DOCKET NO: W-01651B-12-0339

DIRECT TESTIMONY OF
THOMAS J. BOURASSA
(RATE BASE, INCOME STATEMENT AND RATE DESIGN)

March 25, 2013

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying in this proceeding on behalf of the applicant, Vail Water Company,
7 Inc. ("VWC" or the "Company").

8 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
9 **INSTANT CASE?**

10 A. Yes, my direct testimony was submitted in support of the initial application in this
11 docket. There were two volumes, one addressing rate base, income statement and
12 rate design, and the other addressing cost of capital.

13 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

14 A. I will provide rebuttal testimony in response to the direct filings by Staff. More
15 specifically, this first volume of my rebuttal testimony relates to rate base, income
16 statement and rate design for VWC. In a second, separate volume of my rebuttal
17 testimony, I will present an update to the Company's requested cost of capital as
18 well as provide responses to Staff on the cost of capital and rate of return applied to
19 the fair value rate base, and the determination of operating income.

20 **I. SUMMARY OF VWC'S REBUTTAL POSITION**

21 **Q. WHAT IS THE REVENUE THE COMPANY IS PROPOSING IN THIS**
22 **REBUTTAL TESTIMONY?**

23 A. The Company proposes a total revenue requirement of \$2,256,141, which
24 constitutes a decrease in revenues of \$78,606, or -3.37% over adjusted test year
25 revenues.
26

1 **Q. HOW DO THESE COMPARE WITH THE COMPANY'S DIRECT**
2 **FILING?**

3 A. In the direct filing, the Company requested a total revenue requirement of
4 \$2,378,860, which required an increase in revenues of \$44,114, or 1.89%.

5 **Q. WHAT ACCOUNTS FOR THE DIFFERENCE?**

6 A. In its rebuttal filing, VWC has adopted a number of rate base and revenue/expense
7 adjustments recommended by Staff, as well as proposed a number of adjustments
8 of its own based on known and measurable changes to the test year.

9 The net result of these adjustments is: (1) the Company's proposed
10 operating expenses have decreased by \$83,011, from \$2,022,639 in the direct filing
11 to \$1,939,628; and (2) a net increase of \$2,378 in rate base from the direct filing of
12 \$3,312,773 to \$3,315,151.

13 In addition, the Company has reduced its recommended cost of equity from
14 10.4% in its direct filing to 10.1% in its rebuttal filing. The Company is
15 recommending a 10.1% rate of return on FVRB based on the Company weighted
16 average cost of capital which reflects the Company's capital structure of 0 percent
17 debt and 100 percent equity. I discuss the Company proposed return on equity,
18 cost of debt, and capital structure in my cost of capital testimony.

19 **Q. WHAT ARE THE PROPOSED REVENUE REQUIREMENTS AND RATE**
20 **INCREASES FOR THE COMPANY AND STAFF AT THIS STAGE OF**
21 **THE PROCEEDING?**

22 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
Company-Direct	\$2,378,860	\$ 44,114	1.89%
Staff	\$3,199,993	\$ 345,155	12.09%
Company-Rebuttal	\$2,256,141	\$ (78,606)	-3.37%

1 **II. RATE BASE**

2
3 **A. Rate Base (B Schedules).**

4 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
5 **BASE RECOMMENDATIONS?**

6 A. Yes, the rate bases proposed by the Company and Staff are as follows:

	<u>OCRB</u>	<u>FVRB</u>
Company-Direct	\$ 3,312,773	\$ 3,312,773
Staff	\$ 2,218,704	\$ 2,218,704
Company Rebuttal	\$ 3,315,151	\$ 3,315,151

10 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
11 **ORIGINAL COST RATE BASE?**

12 A. Yes. The Company's rebuttal rate base adjustments to OCRB are detailed on
13 rebuttal schedules B-2, pages 3 through 6. Rebuttal Schedule B-2, page 1 and 2,
14 summarize the Company's proposed adjustments and the rebuttal OCRB.
15

16 **1. Plant-in-service (PIS).**

17 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
18 **ADJUSTMENTS TO PLANT-IN-SERVICE , AND IDENTIFY ANY**
19 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

20 A. Rebuttal B-2 Adjustment 1, as summarized on Rebuttal Schedule B-2, page 2,
21 consists of three adjustments labeled as "A", "B", and "C" on Rebuttal Schedule B-
22 2, page 3.

23 Adjustment A reflects a reclassification of retired PIS recorded in 2008.
24 The reclassification of retired plant has a net PIS adjustment of zero as shown on
25
26

1 Rebuttal Schedule B-2, page 3.1. This adjustment reflects the adoption of Staff's
2 recommendation.¹

3 Adjustment B reflects retirements the Company should have retired but did
4 not. The retirements total \$92,956 as shown on Rebuttal Schedule B-2, page 3.2.
5 Staff also proposes retirements but proposes retirements totaling \$281,388.² The
6 Company disagrees with the Staff proposed retirements because it includes
7 retirements that were already recorded. The details of the Company's retirement
8 proposal are shown on B-2, page 3.2.1.

9 Adjustment F reflects the reconciliation of the PIS to the reconstruction of
10 PIS shown on Rebuttal Schedule B-2, pages 3.4 through 3.16. As shown, there are
11 no differences between the reconstructed balance and the adjusted balances shown
12 on Rebuttal Schedule B-2, page 3.3; which means I have accounted for all of the
13 Company's proposed PIS adjustments in the plant reconstruction.

14
15 2. Accumulated Depreciation (A/D).

16 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
17 **ADJUSTMENTS TO ACCUMULATED DEPRECIATION, AND IDENTIFY**
18 **ANY ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

19 A. Rebuttal B-2 Adjustment 2, as summarized on Rebuttal Schedule B-2, page 2,
20 consists of three adjustments labeled as "A", "B", and "C" on Rebuttal Schedule B-
21 2, page 4.

22 Adjustment A reflects the removal of A/D related to the reclassification of
23 retired plant in rebuttal adjustment 1-A discussed above. The Company proposes a
24

25
26 ¹See Direct Testimony of Jeffrey M Michlik ("Michlik Direct") at 7.

²*Id.*

1 decrease in A/D of \$4,514. Staff proposes a downward adjustment to A/D of
2 \$10,136 related to the reclassification of retired plant.³

3 **Q. WHY IS THERE A DIFFERENCE BETWEEN THE COMPANY'S AND**
4 **STAFF'S ADJUSTMENT TO A/D?**

5 A. It is not clear to me how Staff computed its A/D adjustment. Neither the Staff
6 schedules nor Staff's work papers show the computation of the \$10,136. The
7 Company's adjustment reflects the change in A/D using the depreciation rates in
8 effect for the 2008 and the intervening years through the end of the test year. The
9 computation of the change in A/D is shown on Rebuttal Schedule B-2, page 4.1.

10 **Q. THANK YOU. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE**
11 **COMPANY PROPOSED PIS ADJUSTMENTS?**

12 A. Adjustment B reflects the removal of \$92,956 of A/D for the retirement of PIS
13 discussed in adjustment 1-B discussed previously. As noted in relation to
14 adjustment 1-B, the Company also disagrees with the amount of Staff's adjustment
15 to A/D.⁴

16 Adjustment C reflects the adjustment required to reconcile the direct
17 adjusted A/D balance to the reconstructed A/D balance. The Company proposes an
18 additional downward adjustment to A/D totaling \$23,075.

19 **Q. WHY IS THERE A DIFFERENCE BETWEEN THE ADJUSTED A/D**
20 **BALANCE AND THE RECONSTRUCTED A/D BALANCE?**

21 A. The difference of \$23,075 takes into account the proposed plant retirements from
22 PIS adjustment 1-B, the year taken out of service (or retired), and the impact on
23 depreciation expense in the intervening years since the last test year through the
24

25 ³*Id.*

26 ⁴*Id.* Please note: Staff's testimony appears to have a typo. The testimony shows an A/D adjustment of \$288,388 but Staff Schedule JMM-5 shows an A/D adjustment of \$281,388.

1 end of the test year in the instant case.⁵ The Company's proposed A/D adjustment
2 corrects an overstatement in the A/D balance due to the failure to record
3 retirements in the past.

4 **Q. HAS STAFF PROPOSED A SIMILAR ADJUSTMENT?**

5 A. No.

6 **Q. WHY NOT?**

7 A. I do not know.

8 **Q. IS THE COMPANY'S APPROACH TO THE RECONSTRUCTION OF A/D**
9 **FOR RETIREMENTS WHICH WERE NOT RECORDED IN PRIOR**
10 **YEARS CONSISTENT WITH OTHER RATE CASES?**

11 A. Yes. The most notable examples are the recent *Bella Vista Water Company* rate
12 case⁶ and the recent *Pima Utility Company* rate case.⁷ While these two cases are
13 similar with respect to retirements that were not recorded, in my experience almost
14 every rate case reflects adjustments to the recorded book PIS and A/D based on a
15 reconstruction PIS and A/D. The causes vary from using incorrect depreciations
16 rates, failure to record prior rate case adjustments, failure to record retirements,
17 plant reclassifications, etc.

18
19 **3. Contributions-in-aid of Construction (CIAC).**

20 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO**
21 **CONTRIBUTIONS-IN-AID OF CONSTRUCTION?**

22 A. In Rebuttal B-2 Adjustment 3, as shown on Schedule B-2, page 2, the Company
23 reduces accumulated amortization of CIAC by \$2,076. This adjustment recognizes

24
25 ⁵ Staff Exhibit, MSJ, Table E-2 reflects the year of retirement, the amount for each year, and the plant
account affected.

26 ⁶*Bella Vista Water Company*, Docket No. W-02465A-09-0411, *et al.*

⁷*Pima Utility Company*, Docket No. W-02199A-11-0329, *et al.*

1 the changes to the annually computed composite amortization rates in the
2 intervening years since the last test year resulting from the Company's proposed
3 plant retirements.

4 **Q. DID STAFF PROPOSE A DECREASE TO ACCUMULATED**
5 **AMORTIZATION BALANCE?**

6 A. No.

7
8 **4. Deferred CAP Charges.**

9 **Q. PLEASE DISCUSS THE COMPANY'S ADJUSTMENT TO DEFERRED**
10 **CAP CHARGES?**

11 A. In Rebuttal B-2 Adjustment 4, as shown on Schedule B-2, page 2, the Company
12 reduces Deferred CAP Charges by \$23,173. This adjustment is similar to Staff's
13 proposed adjustment to Deferred CAP charges.⁸ I should note, the Staff
14 recommended balance and adjustment contained an error. After informal
15 discussions with Staff it was agreed the adjustment should be \$23,173.

16
17 **5. Remaining Issues in Dispute.**

18 **a. Deferred CAP Liability.**

19 **Q. PLEASE DISCUSS THE STAFF RECOMMENDATION FOR DEFERRED**
20 **CAP LIABILITY TO BE USED AS AN OFFSET TO THE DEFERRED CAP**
21 **SURCHARGE ASSET IN RATE BASE?**

22 A. Staff proposes a deferred CAP liability totaling \$1,075,643.⁹ However, after a
23 review of the Staff recommended balance an error was discovered. The corrected
24

25 ⁸Michlik Direct. at 11.

26 ⁹*Id.* at 11. Please note: Staff's testimony appears to have a typo. The testimony shows a Deferred CAP Liability adjustment \$1,076,180 but Staff Schedule JMM-8 shows a Deferred CAP Liability of \$1,075,643.

1 balance is \$1,081,072. Staff has agreed with this revised balance through informal
2 discussions. That said, Staff justifies its recommendation to create a deferred CAP
3 liability by claiming that an offsetting liability to the deferred CAP charges asset
4 would recognize that ratepayers have funded the CAP charges.¹⁰

5 **Q. WHAT IS A DEFERRED LIABILITY?**

6 A. Based on the Staff reasoning that the Deferred CAP Charge account was funded by
7 ratepayers, I assume it is like CIAC or advances-in-aid of construction ("AIAC"),
8 which are deferred credits, where the funds to construct plant did not come from
9 investors but rather third-parties such as developers. In ratemaking, we recognize
10 CIAC and AIAC as deductions in rate base offsetting the corresponding PIS
11 investment to reflect this fact.

12 **Q. WHY DOES THE COMPANY DISAGREE WITH THE STAFF**
13 **RECOMMENDATION?**

14 A. Staff's recommendation to create a deferred liability account equal to the Deferred
15 CAP Charges (asset) account and then use it as a deduction in rate bases to offset
16 the Deferred CAP Charges balance does not square the facts and circumstances
17 surrounding the authorized treatment of the CAP Hook-up Fee and the CAP
18 Surcharge in the prior rate case.

19 **Q. PLEASE EXPLAIN.**

20 A. In Decision 62450 (April 14, 2000), the Commission ordered that both the CAP
21 Hook-up Fees and the CAP Surcharges collected by the Company were to be
22 treated as revenues and not treated as deferred credits, like CIAC or AIAC, or as
23 deferred liabilities.¹¹ Decision 62450 clearly rejected Staff's recommendation to
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25 ¹⁰*Id.*

26 ¹¹*See* Decision 62450 at 10.

1 treat the CAP Hook-up Fee as a deferred credit.¹² More importantly, these two
2 revenue sources were part of the Company's authorized revenue requirement in the
3 last rate case.¹³ In fact, including these two sources of revenues in the revenue
4 requirement kept the base rates to ratepayers lower than they otherwise would have
5 been. In other words, ratepayers were "subsidized" by these revenues. Staff admits
6 they were treated as revenues in the last rate case but now seeks to re-characterize
7 the revenues as deferred credits.¹⁴

8 **Q. WHAT IS WRONG WITH THAT?**

9 A. Staff appears to want a second bite at the apple. In the last rate case, Staff's position
10 was to treat the CAP Hook-Up Fee as a deferred credit.¹⁵ However, Staff's
11 position in the prior rate case was rejected.¹⁶ Re-characterizing previously
12 authorized revenues into something like CIAC or AIAC or a deferred liability is a
13 type of retroactive ratemaking which should not be countenanced by the
14 Commission.

15 **Q. WHAT IS RETROACTIVE RATEMAKING?**

16 A. Retroactive rate-making is defined as "the setting of rates which permit a utility to
17 recover past losses or which require it to refund past excess profits collected under
18 a rate that did not perfectly match expenses plus rate-of-return with the rates
19 actually established."¹⁷ In other words, regulators are prohibited from making a
20 retrospective inquiry to determine whether a prior rate was reasonable and
21

22
23 ¹²*Id.*

24 ¹³*Id.* at 12.

25 ¹⁴Michlik Direct at 10.

26 ¹⁵Decision 62450 at 10.

¹⁶*Id.*

¹⁷*State ex rel. Util. Consumers' Council of Mo., Inc. v. Pub. Serv. Comm'n*, 585 S.W.2d 41, 59 (Mo. banc 1979).

1 imposing a retrospective "fix" such as a surcharge when rates were too low or a
2 refund when rates were too high. Retroactive ratemaking is prohibited.¹⁸

3 **Q. WHY WOULD THE INCLUSION OF A DEFERRED CAP LIABILITY AS**
4 **AN OFFSET THE COMPANY'S DEFERRED CAP CHARGES ASSET**
5 **CONSTITUTE RETROACTIVE RATEMAKING?**

6 A. As I already stated, Staff is re-characterizing past revenues and turning them into
7 something like AIAC or CIAC. The result is to reduce past revenues and earnings
8 which the Company was authorized to recover through the rates it was authorized
9 to charge. Staff does not explain the entries necessary to establish its
10 recommended deferred CAP liability account. But, when a \$1,081,072 deferred
11 liability account is established, the balancing entry must be a reduction to revenues.
12 Ultimately, the revenue reduction reduces shareholder equity. The impact of the
13 Staff approach is no different than imposing a refund similar to the retroactive
14 "fix" discussed above.

15 **Q. DID RATEPAYERS FUND THE DEFERRED CAP CHARGES?**

16 A. Only in the sense that ratepayers paid rates which funded the Company's revenue
17 requirement; no more and no less. Revenues from these two sources did not take on
18 the characteristic of AIAC and/or CIAC simply because ratepayers paid these
19 charges. They were in fact part of the Company's earnings which flowed to
20 shareholder equity net of expenses. These revenues, net of expenses, are no less
21 shareholder "funds" than any other earnings flowing out of the revenue
22 requirement.

23
24
25
26 ¹⁸*Mountain States Telephone and Telegraph Co. v. Ariz. Corp. Comm'n*, 124 Ariz. 433, 436, 604 P.2d
1144, 1147 (App. 1979), citing *Arizona Grocery Co. v. Atchison, T. & S.F. Railroad Co.*, 284 U.S. 370
(1932).

1 **Q. WHAT ARE THE PROPORTIONS OF REVENUES GENERATED FROM**
2 **CAP HOOK-UP FEES AND CAP SURCHARGES AND WHO PAID THE**
3 **THEM?**

4 A. Through the end of the test year, developers paid CAP hook-up fees comprising
5 about 75 percent of the revenues from these two sources and ratepayers paid the
6 remaining 25 percent through the CAP Surcharge.¹⁹ Clearly, the majority of
7 revenues were collected from developers, not ratepayers as suggested by Staff.²⁰

8 **Q. WERE THE REVENUES FROM THE CAP HOOK-UP FEE AND THE CAP**
9 **SURCHARGE RESTRICTED IN THEIR USE?**

10 A. Yes. The revenues from these two sources were to be used solely for CAP-related
11 expenses and capital items.²¹ However, the restrictions placed on these revenues
12 did not change the fundamental nature of these funds; they were revenues.

13 **Q. WERE INCOME TAXES PAID ON THE CAP REVENUES?**

14 A. Yes. The shareholder ultimately paid the taxes.

15 **Q. WERE ANY AMOUNTS DEDUCTED FROM THE CAP ACCOUNT TO**
16 **REIMBURSE SHAREHOLDERS FOR THE TAXES?**

17 A. No. The shareholder will be left holding the bag so to speak and incur severe
18 financial harm if these revenues are re-characterized as Staff proposes.

19 **Q. DOES THE COMPANY'S DEFERRED CAP SURCHARGE ASSET**
20 **RESPRESENT EXCESS FUNDS FROM THE COLLECTION OF CAP**
21 **HOOK-UP FEES AND CAP SURCHARGES?**

22 A. No. The Deferred CAP Surcharge balance represents the un-amortized portion of
23 the cost of acquiring an additional CAP allocation of 1,071 a.f. in 2007 for
24

25 ¹⁹Michlik Direct at 30.

26 ²⁰*Id.* at 11.

²¹Decision 62450 at 11.

1 approximately \$750,000 and unused long-term storage credits ("LTSC"). Both of
2 these Deferred CAP Surcharge components comprise the Company's investment
3 and not the ratepayer's investment. This asset ultimately benefits ratepayers. And,
4 both components arose out the authorized use of the revenues as stated in Decision
5 62450.²²

6 **Q. HAS STAFF TAKEN ISSUE WITH THE USE OF THE CAP HOOK-UP**
7 **FEES AND/OR THE CAP SURCHARGES IT HAS COLLECTED?**

8 A. Not that I am aware. The revenues were used solely for CAP-related expenses and
9 capital items as was ordered in Decision 62450.²³

10 **Q. HOW IS THE DEFERRED CAP SURCHARGE INVESTMENT A BENEFIT**
11 **TO RATEPAYERS?**

12 A. There are several reasons. First, the Company's investment in its CAP allocation
13 provides an assurance of a long-term water supply. Second, the Company may use
14 its long-term storage credits to offset future CAGRDR excess pumping water
15 charges when there are outages on the canal shielding the ratepayer from the excess
16 pumping water charges. Finally, revenues from the sale of LTSCs help to
17 subsidize rates to customers. The adjusted test year revenues recommended by
18 both parties include over \$40,000 of revenues from the sale of LTSCs, which will
19 keep rates charged to ratepayers lower than they otherwise would be.

20 **Q. IF THE COMMISSION WERE TO DENY RECOGNITION OF THE**
21 **DEFERRED CAP SURCHARGE ASSET IN RATE BASE, SHOULD THE**
22 **TEST YEAR REVENUES BE REDUCED BY THE REVENUES FROM THE**
23 **SALE OF LTSCS?**

24
25
26 ²²*Id.*

²³*Id.*

1 A. Yes. And, ratepayers should make up the difference through the rates they pay. As
2 the Company would further explain in briefing, to allow ratepayers to benefit from
3 the Company's investment through a subsidization of their rates without
4 recognition of the investment in rate base would constitute a taking of the
5 Company's property and would not be just and reasonable.

6 **Q. THE ADJUSTED TEST YEAR REVENUES ALSO INCLUDES \$110,000 OF**
7 **CAP HOOK-UP FEE REVENUES. CORRECT?**

8 A. Yes. The adjusted test year revenues recommended by both parties include
9 \$110,000 of revenues from CAP Hook-Up Fees. I find it astonishing that Staff,
10 who now wants to retroactively change the nature of the CAP Hook-Up Fee from
11 revenues to something like AIAC or CIAC, has not recommended the exclusion of
12 these revenues. After all, if the fees are ultimately going to be treated as CIAC
13 and/or AIAC like, then the receipt of those fees would not be revenues. Staff can't
14 have it both ways. If the Commission were to adopt the Staff recommendation to
15 include a deferred CAP liability in rate base, which it should not for the reasons
16 stated above, then the \$110,000 should be removed from test year revenues and
17 ratepayers make up the difference through the rates they pay.

18 **Q. DOES THE COMPANY HAVE UNEXPENDED CAP HOOK-UP FEE AND**
19 **CAP SURCHARGE RECEIPTS?**

20 A. Yes. At the end of the test year the company had approximately \$1.9 million of
21 unexpended amounts.²⁴ Currently, the balance is approximately \$1.6 million;
22 which is the amount available for design and construction of the CAP pipeline
23 currently estimated to cost about \$2 million.
24
25
26

²⁴Michlik Direct at 30.

1 Q. IS IT THE COMPANY'S INTENTION TO USE THE REMAINING FUNDS
2 FOR THE CONSTRUCTION OF INFRASTRUCTURE TO RECEIVE CAP
3 WATER DIRECTLY?

4 A. Yes. These remaining funds will help pay the cost of the planned CAP pipeline.
5 And, once the CAP pipeline is constructed and placed into service there will be no
6 "excess" CAP funds. Further, consistent with the fact that the remaining
7 unexpended funds will be used for the CAP pipeline are from revenues, the
8 infrastructure costs should be recognized as the shareholder's investment and not
9 as CIAC or AIAC funded investment.

10 Q. WOULD THE COST OF THE CAP PIPELINE BE CONSIDERED AN
11 AUTHORIZED EXPENDITURE OF THE CAP REVENUES AS
12 CONTEMPATED BY DECISION 62450?

13 A. Yes.

14
15 b. Excess Capacity.

16 Q. PLEASE COMMENT ON THE COMPANY'S DISAGREEMENT WITH
17 THE STAFF RECOMMENDED EXCESS CAPACITY ADJUSTMENTS.

18 A. The Company disagree with the Staff recommended excess capacity adjustments.
19 This issue is discussed in the Rebuttal Testimony of Kara D. Festa. P.E..

20 II. INCOME STATEMENT (C SCHEDULES)

21 Q. PLEASE EXPLAIN THE ADJUSTMENTS YOU ARE PROPOSING TO
22 THE INCOME STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.

23 A. The following is a summary of adjustments shown on Schedule C-1:

24 Adjustment 1 annualizes depreciation expense. Annualized depreciation
25 expense is lower reflecting the Company's proposed retirements.
26

1 **Q. WHY IS THERE A DIFFERENCE BETWEEN THE COMPANY**
2 **RECOMMENDED DEPRECIATION EXPENSE AND THE STAFF**
3 **DEPRECIATION EXPENSE?**

4 A. There are two reasons. First, Staff includes depreciation of \$(14,940) for account
5 348 – Other Tangible Plant. But, this account is fully depreciated. This is an error
6 that should be corrected. Second, Staff's plant balances are lower for some
7 accounts because of Staff's recommended excess capacity adjustment and
8 retirement adjustment; which the Company has not adopted.

9 **Q. THANK YOU. PLEASE CONTINUE.**

10 A. Adjustment 2 changes the property taxes to reflect the Company's rebuttal
11 proposed revenues. Staff and the Company are in agreement on the method of
12 computing property taxes. This method utilizes the ADOR formula and inputs two
13 years of adjusted revenues plus one year of proposed revenues. I computed the
14 property taxes based on the Company's proposed revenues, and then used the
15 property tax rate and assessment ratio that was used in the direct filing.

16 Adjustment number 7 reduces management fees by over \$91,000 to reflect
17 the Company's revised cost of providing management services.

18 **Q. PLEASE EXPLAIN?**

19 A. The Company's cost estimate used in the preparation of the initial filing contained
20 an error. The Company's revised cost estimate corrects the error. Staff was
21 notified of the error and provided a revised computation on December 20, 2012,
22 in revised response to Staff data request JMM 2-5.

23 **Q. HAS STAFF REFLECTED THE REVISED COST ESTIMATE ITS**
24 **SCHEDULES? IF NOT, WHY NOT?**

1 A. No. Staff does not provide an explanation. Instead, despite the further reduction
2 to the management fees, Staff only offers criticism of the Company's cost
3 allocation and the value of the management services provided by TEM Corp.

4 **Q. WHAT IS THE COST PER CUSTOMER FOR THE MANAGEMENT**
5 **FEES?**

6 A. The revised management fee is \$126,683 annually which translates to \$2.73 per
7 customer per month.

8 **Q. IS THIS A REASONABLE COST?**

9 A. In my view, it is very reasonable. I make my judgment based upon several factors.
10 First, if the Company were to hire employees directly as full time employee to
11 perform the same services as provided by the TEM plus the office costs such as
12 office rent, insurance, and utilities, it would cost well over 3 times the amount
13 included in the adjusted test year operating expenses.²⁵ Second, if the Company
14 were to hire the TEM employees directly as full time employees plus the office
15 costs such as office rent, insurance, and utilities, it would also cost about 3 times
16 the amount included in the adjusted test year operating expenses.²⁶ Third, third-
17 party services similar to the services provided by TEM would cost at least 2.25
18 times amount included in the adjusted test year operating expenses.²⁷

19
20 ²⁵ Based upon the American Water Works Association 2009 Compensation Survey, the average
21 compensation for a financial executive, controller, and 2 entry level accountants would be \$123,110,
22 \$97,940, and \$85,598. With benefits and payroll taxes, the total compensation would total nearly
23 \$400,000 annually. Adding a reasonable amount for office costs such as office rent, insurance, utilities,
24 etc. of \$30,000, the total cost would be at least \$430,000 annually. The adjusted test year expenses
25 include approximately \$136,000 of management fees or less than a third the cost of this alternative.

26 ²⁶ Based upon the current compensation of each TEM employee who provides services to the Company
With benefits and payroll taxes, the total compensation would total over \$350,000 annually. Adding a
reasonable amount for office costs such as office rent, insurance, utilities, etc. of \$30,000, the total cost
would be at least \$380,000 annually. The adjusted test year expenses include approximately \$136,000 of
management fees or a little more than a third the cost of this alternative.

²⁷ The Company recently obtained a proposal from LaVoie & Company, P.C for services similar to the
services TEM provides totaling over \$170,000 annually. Of course, there would still be a need for a full
time executive/manager at the Company to oversee the third-party work and manage the Company. This

1 **Q. MR. BOURASSA, WOULD A SMALL COMPANY LIKE VWC HIRE FULL**
2 **TIME EMPLOYEES TO PERFORM THE SERVICES TEM PROVIDES?**

3 A. Let me premise my answer by saying that there is no question small companies
4 need the kinds of services TEM provides. This Commission knows full well the
5 operational and financial problems of small utilities and the disruptions in service a
6 poorly managed small utility can cause. The question comes down to affordability.
7 Small utilities typically cannot afford to hire full time qualified employees to
8 perform the necessary management and accounting functions; which is exactly why
9 many have significant operational, management, and/or financial problems. VWC
10 has the benefit of leveraging the economies of scale TEM provides.

11 **Q. DOES THE COMPANY'S PAYMENT OF MANAGEMENT FEES HELP**
12 **TO LOWER THE COSTS OF THE OTHER ENTITIES TO WHICH TEM**
13 **PROVIDES SERVICES?**

14 A. Yes it does, in the same sense that VWC's costs are lower because it shares costs.
15 Rather than hiring full time employees, VWC benefits by "sharing" employee time
16 with other companies. Having a contractual relationship with TEM is not the
17 undesirable circumstance Staff appears to make it out to be.²⁸

18 **Q. DID THE COMPANY PROVIDE SUPPORT FOR THE MANAGEMENT**
19 **FEES?**

20 A. Yes. The Company provided: (1) wages and salary information;(2) a listing of all
21 services provided by each TEM employee on a daily, weekly, monthly, and annual
22

23
24 employee would not be a low level, low skilled person and would have to have the management and
25 financial skills of a least a controller/accounting manager. According the American Water Works
26 Association 2009 Compensation Survey the annual compensation required would be \$97,940 plus benefits
totaling \$127,322. Adding a reasonable amount for office costs such as rent, insurance, utilities, etc., of
\$10,000, the total cost would be at least \$307,000 annually. The adjusted test year expenses include
approximately \$136,000 of management fees or a little more less than half the cost of this alternative.

²⁸ Michlik Direct at 15-20.

1 basis; (3) a copy of TEM's general ledger detail for all indirect costs such as office
2 rent, utilities, and insurance; (4) supporting documentation for all indirect costs as
3 requested by Staff; and, (5) and a cost allocation worksheet.²⁹

4 **Q. DID THE COMPANY PROVIDE GENERAL LEDGER DETAIL OF TEM**
5 **CORP.?**

6 A. Yes. Contrary to Staff's assertion, the Company did provide relevant general
7 ledger detail in support of the costs it seeks in this case.³⁰ The Company provided
8 both the relevant excerpts from the ledger and the supporting documentation for
9 the TEM allocated costs the Company seeks to include in the management fee.
10 The Company did not provide the entire general ledger and supporting information
11 relating to other entities because the Company is not seeking to recover any of
12 those costs; this information is irrelevant to the issue at hand.

13 **Q. WERE THE TEM COSTS ALLOCATED ON A "VAGUE GUESSTIMATED**
14 **PERCENTAGE" AS MR. MICHLIK ASSERTS ON PAGE 21 OF HIS**
15 **TESTIMONY?**

16 A. No. The wages and salaries were based upon each TEM employee's estimate of
17 the time necessary to perform all the work they perform on a daily, weekly,
18 monthly, and annual basis on behalf of VWC. These employees have been with
19 TEM for many years and have the experience of many years working on Company
20 related matters. They know best the amount of their total time they devote to
21 Company related matters.

22 The remaining other costs such as insurance, office rent, utilities, computer
23 services, etc. were either allocated on a weighted percentage of employee time or
24 at a rate of 100% when the cost was directly related to VWC. These allocation
25

26 ²⁹See, e.g., Company's Response to Staff Data Request 2.5 (revised).

³⁰Id. at 24.

1 rates are not unreasonable nor do they violate the NARUC cost allocation
2 guidelines. In the end, whether you agree or disagree with the allocation
3 methodology, the results (the cost per customer per month) are much lower than
4 the alternatives; even from third-party vendors.

5 **Q. PLEASE RESPOND TO STAFF'S RECOMMENDATION THE COMPANY**
6 **OBTAIN AT LEAST 5 BIDS FROM THIRD-PARTY VENDORS FOR**
7 **MANAGEMENT SERVICES EVERY THREE YEARS?**

8 **A.** I have at least two responses. First, I do not think 5 vendors exist in Arizona which
9 would be able provide the same services to VWC as TEM provides. Even if there
10 are, not all of them may be willing to provide a bid. As noted in Mr. Volpe's
11 testimony, recently, the Company has sought bids from several vendors. Thus far,
12 only one vendor has responded with a bid. A second vendor responded they were
13 not interested in submitting a bid at this time because they cannot handle the
14 additional work. Mr. Volpe discusses his efforts to obtain bids in his testimony.
15 Other vendors may not want to submit bids when there is a highly likelihood the
16 Company will continue under its current arrangement; one that is the least costly to
17 VWC. Second, and perhaps more importantly, since the Company cannot
18 unilaterally increase or decrease its utility rates in response to new bids obtained
19 every three years, obtaining bids seems to be an exercise in futility in addition to
20 being administratively burdensome. Having established a fair and reasonable
21 management fee in the instant case and then revisiting the fee in the next rate case
22 seems to me to be the most prudent and reasonable course of action.

23 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE COMPANY'S**
24 **REBUTTAL PROPOSED REVENUE/EXPENSE ADJUSTMENTS.**
25
26

1 A. Adjustment number 4 moves increases water testing expense by \$9,761 based upon
2 Staff's recommendation.³¹

3 Adjustment number 5 reduces miscellaneous expense by \$1,311 based upon
4 Staff's recommendation.³²

5 Adjustment numbers 6 through 9 are intentionally left blank.

6 Adjustment 10 reflects income taxes based upon the Company adjusted test
7 year revenue and expense.

8 **Q. HAS THE COMPANY UPDATED ITS INCOME TAX COMPUTATION TO**
9 **CONFORM TO THE RECENT COMMISSION DECISION ON INCOME**
10 **TAXES FOR PASS-THROUGH UTILITIES?**

11 A. Yes. Decision 73739 (Feb. 22, 2013) requires the specification of the individual
12 filing status of all individual owners. Accordingly, the Company updated the tax
13 filing status of some individual owners from Single to Married Filing Jointly or
14 Married Filing Separately. In the direct filing, all individual owners were assumed
15 to file as Single.

16 **Q. DID THE EFFECTIVE INCOME TAX RATE CHANGE?**

17 A. Yes. The overall federal and state effective income tax rate at proposed revenue is
18 now about 22.1 percent whereas in the direct filing it was about 25.4 percent. The
19 reduction was not all due to the change in filing status of some individual owners.
20 The effective income tax rate also decreased because the Company is requesting a
21 lower revenue requirement.

22 **Q. DID YOU COMPUTE THE EFFECTIVE TAX RATE ASSUMING VWC**
23 **WAS A SUBCHAPTER C CORPORATION?**

24
25
26 ³¹Michlik Direct at 12.

³²*Id.* at 12.

1 A. Yes. The overall federal and state effective income tax rate assuming VWC was a
2 stand-alone C-Corp. is 38.6 percent. Following Decision 73739, I employed the
3 lower tax rates when computing the income taxes for VWC.
4

5 1. **Remaining Revenue/Expense Issues**

6 **Q. PLEASE COMMENT ON THE STAFF RECOMMENDATION TO**
7 **INCREASE PURCHASED WATER EXPENSE BY \$47,911?**

8 A. The Company disagrees with Staff recommendation to increase purchased water
9 expense for two reasons. First, Staff's recommendation is based upon a normalized
10 purchased water expense which reflects the mean average of CAP water rates 5
11 years into the future.³³ The CAP rates for 2015 to 2018 are only advisory and are
12 not firm. As a result, they are not truly known and measurable.³⁴ There is a high
13 degree of uncertainty with respect to the rate CAP may ultimately charge in the
14 future; particularly 5 years hence. There is also uncertainty with respect to how
15 much the purchased water cost the Company will defer through LTSCs. The only
16 thing we know with any degree of certainty is that the CAP rates will increase.
17 However, this does not make Staff's normalized amount known and measurable.
18 Second, the Company's recommendation to include a true-up to actual CAP
19 purchased water costs in its CAP surcharge adjuster mechanism removes all
20 uncertainty and insures the Company does not recover any more or any less than
21 the actual expense incurred – which is fair to both the Company and to ratepayers.
22
23
24
25

26 ³³ *Id.* at 12.

³⁴ *Id.* at 11-12.

1 **III. RATE DESIGN (H SCHEDULES).**

2 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES FOR WATER**
3 **SERVICE?**

4 A. The Company's proposed rates are:
5 MONTHLY SERVICE CHARGES

6	5/8" x 3/4" Meter	\$ 14.92
7	3/4" Meter	\$ 22.38
8	1" Meter	\$ 37.30
9	1 1/2" Meter	\$ 74.30
10	2" Meter	\$ 119.36
11	3" Meter	\$ 238.72
12	4" Meter	\$ 372.99
13	6" Meter	\$ 745.99

14
15 Gallons in minimum 0

16 **COMMODITY RATES**

17	5/8"X3/4" -Residential	1 to 3,000	\$ 3.00
18		3,001 to 10,000	\$ 3.75
19		Over 10,000	\$ 4.50
20	5/8"X3/4" - Commercial	1 to 10,000	\$3.75
21		Over 10,000	\$ 4.50
22	3/4" - Residential	1 to 3,000	\$ 3.00
23		3,001 to 10,000	\$ 3.75
24		Over 10,000	\$ 4.50
25	3/4" Meter – Commercial	1 to 10,000	\$ 3.75
26		Over 10,000	\$ 4.50

1" Meter	1 to 25,000	\$ 3.75
	Over 25,000	\$ 4.50
1 ½" Meter	1 to 50,000	\$ 3.75
	Over 50,000	\$ 4.50
2" Meter	1 to 80,000	\$ 3.75
	Over 80,000	\$ 4.50
3" Meter	1 to 160,000	\$ 3.75
	Over 160,000	\$ 4.50
4" Meter	1 to 250,000	\$ 3.75
	Over 250,000	\$ 4.50
6" Meter	1 to 500,000	\$ 3.75
	Over 500,000	\$ 4.50
CAP Recovery Fee (per 1,000 gallons)	*removed	
CAP Surcharge (per 1,000 gallons)	*to be determined	
CAP Hook-up Fee	See Schedule H-3, page 4.	

Q. WHAT WILL BE THE 5/8X3/4 INCH RESIDENTIAL CUSTOMER AVERAGE MONTHLY BILL UNDER THE PROPOSED RATES?

A. As shown on Schedule H-2, page 1, the average monthly bill under proposed rates for a 5/8x3/4 inch residential customer using an average 6,720 gallons is \$37.87 – a \$2.19 decrease from the present monthly bill or a 5.47 percent decrease.

Q. HAVE YOU MADE ANY CHANGES TO THE RATE DESIGN FROM THE DIRECT FILING?

A. Yes. I have lowered the first tier commodity rate and increased the price differential between the commodity rates in a move to set the commodity rates more like Staff recommended commodity rates. With these changes, the Company's proposed rates continues to provide somewhat more revenue stability

1 than the current rate design in that it provides for about 37.5 percent of the revenue
2 requirement from monthly minimums whereas under present rates about 34 percent
3 of revenues are derived from the monthly minimums. As I stated in my direct,
4 generally the portion of revenue derived from the monthly minimums should be in
5 the range of 40 to 50 percent and ideally closer to 50 percent. So, the Company
6 rate design is less stable than I would like. However, the proposed rate design
7 achieves an appropriate balance for this case given the constraints in moving from
8 the current single tier rate design to an inverted tier design with more revenue
9 stability.

10 **Q. PLEASE COMMENT ON THE PROPOSED RATE DESIGN OF STAFF.**

11 A. Like the Company, Staff is proposing an inverted three tier design for the 5/8x3/4
12 inch metered residential customers and an inverted two tier design for the small
13 commercial and irrigation customers as well as all 1 inch and larger metered
14 customers.³⁵ Staff's break-over points are similar to the Company's and increase
15 with meter size. The major differences between the Staff and the Company rate
16 designs is the Staff design provides for a lower first tier commodity rate than the
17 Company and the price differential between the commodity rates is narrower at
18 \$0.75 compared to \$1.05 under the Staff rate design.

19 **Q. WHY ARE YOU RECOMMENDING NARROWER PRICE**
20 **DIFFERENTIALS BETWEEN THE COMMODITY RATES?**

21 A. This will provide greater stability with respect to the commodity revenues.
22 Commodity rate revenues under an inverted tier rate design are inherently volatile.
23 The revenue volatility is due to the fact that an increasing block rate anticipates
24 recovering greater proportions of revenues at higher levels of consumption. When
25

26 ³⁵See Staff Schedule JMM-17, page 1 of 2.

1 more revenues are expected to be recovered at the higher priced commodity rates
2 (due wider price differentials between the commodity rates) and conservation takes
3 place, a greater amount of revenues are lost.

4 **1. Other Tariff Changes.**

5 **Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND**
6 **STAFF ON THE COMPANY'S PROPOSED METER AND SERVICE LINE**
7 **INSTALLATION CHARGES?**

8 **A.** No. The Company and Staff are in agreement.

9 **Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND**
10 **STAFF ON THE COMPANY'S PROPOSED MISCELLANEOUS**
11 **CHARGES?**

12 **A.** No. The Company and Staff are in agreement.

13 **Q. IS THERE ANY DISAGREEMENT BETWEEN THE COMPANY AND**
14 **STAFF ON THE COMPANY'S PROPOSED NON-CAP HOOK-UP FEE?**

15 **A.** No. The Company and Staff are in agreement.

16 **2. Remaining Issues in Dispute.**

17 **a. CAP Surcharge Adjuster Mechanism.**

18
19 **Q. HAVE YOU PREPARED AN UPDATE TO THE CAP SURCHARGE**
20 **ESTIMATE BASED ON RECENT DEVELOPMENTS WITH RESPECT TO**
21 **THE CAP PIPELINE COSTS AND THE WHEELING FEES FROM THE**
22 **CITY OF TUCSON?**

23 **A.** Yes. I have attached an updated CAP surcharge calculation and have included it as
24 Exhibit TJB-RB-RB1. The updated computation reflects the most current CAP
25 pipeline cost estimate as well as the most current cost estimate from the City of
26 Tucson for wheeling CAP water to the Company's service territory. Mr. Volpe

1 discusses the recent developments regarding the status of the project and
2 negotiations with the City of Tucson in his testimony. That said, as shown, the
3 indicated year 1 CAP surcharge (per 1,000 gallons) is estimated to be \$2.61.

4 **Q. PLEASE COMMENT ON STAFF'S RECOMMENDATION TO EXCLUDE**
5 **THE ANNUAL DEPRECIATION AND RETURN ON INVESTMENT**
6 **COMPONENTS FROM THE SURCHARGE CALCULATION?**

7 A. Staff asserts that the funds in the CAP are not the Company's funds so it should not
8 receive a return of or a return on the CAP project investment.³⁶ In other words, the
9 remaining balance of the restricted revenues in the CAP account is a deferred credit
10 like CIAC or AIAC. Staff goes as far to state that treating the funds as CIAC is an
11 efficient and reasonable manner to effectuate a refund to ratepayers for excess
12 funds collected over CAP expenditures.³⁷

13 The Company disagrees with Staff for two important reasons. First, unless
14 and until the Commission determines that there are excess CAP funds, there is no
15 basis for a refund. The CAP pipeline is a valid capital expenditure under Decision
16 62450. And, despite missing a deadline for the submission of plans,³⁸ that issue
17 has been fully resolved and the Company will still be able to meet the original
18 December 31, 2015 deadline to have CAP water delivered to its service territory.³⁹
19 At this point, there is less money in the CAP account than the projected cost of the
20 CAP pipeline. The Company anticipates there will be no excess CAP funds once
21 the CAP pipeline is completed and placed into service. Second, if there are no
22 excess CAP funds because all of the CAP revenues were spent on CAP-related
23 expenses and/or capital items as authorized in Decision 62450, then the revenues
24

25 ³⁶Michlik Direct at 31 and 33.

26 ³⁷*Id.* at 31.

³⁸*Id.* at 28.

³⁹Decision 62450 at 15.

1 collected by the Company are shareholder funds and the Company should receive
2 recognition of its investment. To re-characterize these revenues as CIAC is
3 retroactive ratemaking. See my discussion on pages 9 through 10, above. In
4 addition, since the shareholder has paid taxes on the CAP revenues, the shareholder
5 will incur severe financial harm. See my discussion on page 11.

6 **Q. PLEASE COMMENT ON STAFF'S RECOMMENDATION TO EXCLUDE**
7 **THE CAP M&I AND CAPITAL CHARGES FROM THE SURCHARGE**
8 **CALCULATION.**

9 A. Staff recommends excluding the CAP M&I and capital charges from the CAP
10 surcharge computation because Staff has normalized the test year purchased water
11 expense using provisional CAP rates through 2018. I have explained the
12 Company's reason for disagreeing with the normalization of the purchased water
13 costs at page 20. The bottom line is the Company's proposal to include the CAP
14 delivery and capital charges as a true-up in the computation removes all uncertainty
15 with respect future CAP rates and the Company will not over or under collect the
16 expense.

17 b. **CAP Hook-Up Fee.**

18
19 **Q. ON PAGE 31, MR. MICHLIK RECOMMENDS THE CAP HOOK-UP FEE**
20 **BE TREATED AS CIAC IN THE FUTURE. PLEASE COMMENT.**

21 A. Staff's recommended test year revenue is inconsistent with its position on the CAP
22 Hook-Up Fee. Let me explain. The Company recommends the CAP Hook-up Fee
23 continue to be treated as revenue. Accordingly, the Company included \$110,000
24 of CAP Hook-Up Fee revenue in its adjusted test year revenues. Staff accepted the
25 Company's adjusted test year revenues and did not remove the \$110,000. But, if
26 the CAP Hook-Up Fee is to be treated as CIAC, then the \$110,000 of revenues will

1 not exist. If the Commission decides to treat the CAP Hook-Up Fee as CIAC in
2 the future, these revenues must be removed from the test year revenues and
3 ratepayers will have to pay rates sufficient to make up the difference.

4 **Q. WHY IS THE COMPANY RECOMMENDING TO CONTINUE TO TREAT**
5 **THE CAP HOOK-UP FEE AS REVENUE?**

6 A. The revenues help to keep rates lower to ratepayers than they otherwise would be,
7 just as they did in the prior rate case.

8 **Q. DOES THAT CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 A. Yes.
10
11
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23
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25
26

EXHIBIT TJB-RB-RB1

Vail Water Company
CAP Surcharge Mechanism
Computation of CAP Surcharge (Year 1) - Updated Based upon Latest Information

EXHIBIT TJB-RB-RB1
Page 1

Line

No.

1	<u>Component 1 - Annual Depreciation</u>		
2	[1] CAP Project Costs	\$	1,956,321
3	[2] Composite Depreciation Rate		2.00%
4	[3] Depreciation [1]x[2]	\$	39,126
5			
6	<u>Component 2 - Annual CAP M&I Charges</u>		
7	[4] CAP Allocation (a.f.)		1,857
8	[5] M&I Charges (per a.f.) using 2013 firm rate	\$	129.00
9	[6] Total M&I Charges [4]x[5]	\$	239,553
10			
11	<u>Component 3 - Annual Tucson Water Wheeling Fees</u>		
12	[7] CAP Water Delivered to Vail Service Territory (a.f.)		1,100
13	[8] Wheeling fee (per a.f.)	\$	601.77 *
14	[9] Total Wheeling Fees	\$	661,947
15			
16	<u>Component 4 - Annual Recharge Credits</u>		
17	[10] CAP Water Recharged (a.f.) [4]-[7]		757
18	[11] M&I Charges (per a.f.) = [5]	\$	129.00
19	[12] Total Recharge Credits for Future Use -[10]x[11]	\$	(97,653)
20			
21	<u>Component 5 - Return on Investment plus Income Taxes</u>		
22	[13] CAP Project Costs = [1]	\$	1,956,321
23	[14] Less: Accumulated Depreciation (sum of prior years depreciation expense)	\$	-
24	[15] Net Investment [13] - [14]	\$	1,956,321
25	[16] Authorized Rate of Return		10.10%
26	[17] Required Return [15]x[16]	\$	197,588
27	[18] Income Tax Factor		1.3045
28	[19] Total Return plus Income Taxes [17]x[18]	\$	257,759
29			
30	<u>Component 6 - Other CAP-Related Costs/Credits</u>		
31	[20] Test Year Purchased Water	\$	(199,817)
32	[21] Prior Year Under (Over) recovery	\$	-
33	[22] Other - Specify (provide supporting schedule)	\$	-
34	[23] Total Other CAP-Related Costs/Credits [20]+[21]+[22]	\$	(199,817)
35			
36	<u>Computation of Commodity Charge</u>		
37	[24] Total Base Cost to be Recovery [3]+[6]+[9]+[12]+[19]+[23]	\$	900,916
38	[25] Gallons sold in prior year (in 1,000's)		344,560
39	[26] Cost per 1,000 gallons [24]/[25]	<u>\$</u>	<u>2.61</u>

40

41 *The wheeling fee will contain annual inflators for power and O&M currently estimated to be 8% for power

42 and 3% for O&M.

REBUTTAL SCHEDULES

Vail Water Company
Test Year Ended December 31, 2011
Computation of Increase in Gross Revenue
Requirements As Adjusted

Exhibit
Rebuttal Schedule A-1
Page 1
Witness: Bourassa

Line
No.

1	Fair Value Rate Base			\$	3,315,151	
2						
3	Adjusted Operating Income				395,119	
4						
5	Current Rate of Return				11.92%	
6						
7	Required Operating Income			\$	334,830	
8						
9	Required Rate of Return on Fair Value Rate Base				10.10%	
10						
11	Operating Income Deficiency			\$	(60,288)	
12						
13	Gross Revenue Conversion Factor				1.3038	
14						
15	Increase in Gross Revenue					
16	Requirement			\$	(78,606)	
17						
18	Adjusted Test Year Revenues			\$	2,334,747	
19	Increase in Gross Revenue Revenue Requirement			\$	(78,606)	
20	Proposed Revenue Requirement			\$	2,256,141	
21	% Increase				-3.37%	
22						
23	Customer		Present		Proposed	Dollar
24	Classification		Rates		Rates	Increase
25	(Residential Commercial, Irrigation)					Percent
26	5/8x3/4 Inch Residential	\$	1,728,603	\$	1,677,344	\$ (51,259) -2.97%
27	3/4 Inch Residential		55,737		53,999	(1,738) -3.12%
28	1 Inch Residential		2,132		1,975	(157) -7.38%
29						
30	5/8x3/4 Inch Commercial		3,471		3,773	302 8.71%
31	3/4 Inch Commercial		1,804		1,841	37 2.07%
32	1 Inch Commercial		4,172		4,035	(137) -3.28%
33	1/12 Inch Commercial		17,977		15,346	(2,631) -14.64%
34	2 Inch Commercial		67,893		57,822	(10,071) -14.83%
35						
36	5/8x3/4 Inch Irrigation		2,073		2,160	87 3.75%
37	3/4 Inch Irrigation		5,089		5,280	191 3.75%
38	1 Inch Irrigation		17,540		16,901	(638) -3.64%
39	1/12 Inch Irrigation		17,246		16,217	(1,029) -5.96%
40	2 Inch Irrigation		113,577		115,693	2,116 1.86%
41						
42	5/8x3/4 Inch Standpipe		12,909		9,095	(3,813) -29.54%
43	1 Inch Standpipe		2,256		1,991	(265) -11.74%
44	3 Inch Construction		37,004		27,561	(9,442) -25.52%
45						
46	Revenue Annualization		29,925		29,694	(232) -0.77%
47						
48	Subtotal	\$	2,119,407	\$	2,040,728	\$ (78,679) -3.71%
49						
50	Other Water Revenues		214,637		214,637	- 0.00%
51	Reconciling Amount		703		776	73 10.38%
52	Rounding					- 0.00%
53	Total of Water Revenues	\$	2,334,746	\$	2,256,141	\$ (78,606) -3.37%

SUPPORTING SCHEDULES:

B-1
C-1
C-3
H-1

Vail Water Company
Test Year Ended December 31, 2011
Summary of Rate Base

Exhibit
Rebuttal Schedule B-1
Page 1
Witness: Bourassa

Line No.		Original Cost Rate base	Fair Value Rate Base
1			
2	Gross Utility Plant in Service	\$ 20,065,753	\$ 20,065,753
3	Less: Accumulated Depreciation	3,601,631	3,601,631
4			
5	Net Utility Plant in Service	\$ 16,464,122	\$ 16,464,122
6			
7	<u>Less:</u>		
8	Advances in Aid of Construction	11,374,431	11,374,431
9			
10	Contributions in Aid of Construction	2,930,228	2,930,228
11			
12	Accumulated Amortization of CIAC	(603,756)	(603,756)
13			
14	Customer Meter Deposits	529,140	529,140
15	Deferred Income Taxes & Credits	-	-
16			
17			
18			
19	<u>Plus:</u>		
20			
21	Deferred CAP Charges	1,081,072	1,081,072
22	Prepayments	-	-
23	Allowance for Working Capital	-	-
24			
25			
26	Total Rate Base	<u>\$ 3,315,151</u>	<u>\$ 3,315,151</u>
27			
28			
29			
30			
31			
32			
33			
34			
35			
36			
37			
38			
39			
40			
41	<u>SUPPORTING SCHEDULES:</u>		
42	B-2		
43	B-3		
44	B-5		
45			
46			
47			
48			
49			
50			

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of <u>Test Year</u>	Proforma <u>Adjustment</u>	Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 20,158,709	(92,956)	\$ 20,065,753
3				
4	Less:			
5	Accumulated			
6	Depreciation	3,722,176	(120,545)	3,601,631
7				
8				
9	Net Utility Plant			
10	in Service	\$ 16,436,533		\$ 16,464,122
11				
12	Less:			
13	Advances in Aid of			
14	Construction	11,374,431	-	11,374,431
15				
16	Contributions in Aid of			
17	Construction - Gross	2,930,228	-	2,930,228
18				
19	Accumulated Amortization of CIAC	(605,832)	2,076	(603,756)
20				
21	Customer Meter Deposits	529,140		529,140
22	Accumulated Deferred Income Tax	-	-	-
23				-
24				-
25				
26	Plus:			
27				
28	Deferred CAP Charges	1,104,206	(23,134)	1,081,072
29	Prepayments	-	-	-
30	Materials and Supplies	-	-	-
31	Working capital	-	-	-
32				-
33				
34	Total	<u>\$ 3,312,773</u>		<u>\$ 3,315,151</u>

SUPPORTING SCHEDULES:
B-2, pages 2

RECAP SCHEDULES:
B-1

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments

Exhibit
Rebuttal Schedule B-2
Page 2
Witness: Bourassa

Line No.		Adjusted at End of Test Year	Proforma Adjustments			Intentionally Left Blank	Rebuttal Adjusted at end of Test Year
			1	2	3		
			Plant-in-Service	Accumulated Depreciation	CIAC	Deferred CAP Charges	
1	Gross Utility						
2	Plant in Service	\$ 20,158,709	(92,956)				\$ 20,065,753
3							
4	Less:						
5	Accumulated						
6	Depreciation	3,722,176		(120,545)			3,601,631
7							
8							
9	Net Utility Plant						
10	in Service	\$ 16,436,533	\$ (92,956)	\$ 120,545	\$ -	\$ -	\$ 16,484,122
11							
12	Less:						
13	Advances in Aid of						
14	Construction	11,374,431					11,374,431
15							
16	Contributions in Aid of						
17	Construction (CIAC)	2,930,228			-		2,930,228
18							
19	Accumulated Amort of CIAC	(605,832)			2,076		(603,756)
20							
21	Customer Meter Deposits	529,140					529,140
22	Accumulated Deferred Income Taxes	-			-		-
23							
24							
25	Plus:						
26							
27	Deferred CAP Charges	1,104,206				(23,134)	1,081,072
28	Prepayments	-					-
29	Materials and Supplies	-					-
30	Allowance for Cash Working Capital	-					-
31							
32	Total	\$ 3,312,773	\$ (92,956)	\$ 120,545	\$ (2,076)	\$ (23,134)	\$ 3,315,151
33							
34							
35							

SUPPORTING SCHEDULES:
B-2, pages 3-5

RECAP SCHEDULES:
B-1

Line	No.	Description	Acct.	A	B	Adjustments	D	E	Rebuttal
				Direct	Reclassify	Plant	Adjustments	Intentionally	Adjusted
				Adjusted	Retired Plant	Retirements	to Reconcile	Left	Original
				Cost			Balance	Blank	Cost
1	301	Organization Cost		-	-	-	-	-	-
2	302	Franchise Cost		-	-	-	-	-	-
3	303	Land and Land Rights		17,750	-	-	-	-	17,750
4	304	Structures and Improvements		399,328	-	(1,978)	-	-	397,350
5	305	Collecting and Impounding Res.		-	-	-	-	-	-
6	306	Lake River and Other Intakes		-	-	-	-	-	-
7	307	Wells and Springs		1,126,979	-	-	-	-	1,126,979
8	308	Infiltration Galleries and Tunnels		-	-	-	-	-	-
9	309	Supply Mains		2,995	-	-	-	-	2,995
10	310	Power Generation Equipment		-	-	-	-	-	-
11	311	Electric Pumping Equipment		1,553,110	1,838	(29,479)	-	-	1,525,469
12	320	Water Treatment Equipment		-	-	-	-	-	-
13	320.1	Water Treatment Plant		-	-	-	-	-	-
14	320.2	Chemical Solution Feeders		-	-	-	-	-	-
15	330	Dist. Reservoirs & Standpipe		1,621,069	25,642	(61,499)	-	-	1,585,212
16	330.1	Storage tanks		-	-	-	-	-	-
17	330.2	Pressure Tanks		-	-	-	-	-	-
18	331	Trans. and Dist. Mains		14,023,034	-	-	-	-	14,023,034
19	333	Services		12,451	-	-	-	-	12,451
20	334	Meters		923,082	-	-	-	-	923,082
21	335	Hydrants		492,908	-	-	-	-	492,908
22	336	Backflow Prevention Devices		7,901	-	-	-	-	7,901
23	339	Other Plant and Misc. Equip.		6,553	-	-	-	-	6,553
24	340	Office Furniture and Fixtures		29,683	-	-	-	-	2,203
25	340.1	Computers and Software		15,621	(27,480)	-	-	-	15,621
26	341	Transportation Equipment		54,806	-	-	-	-	54,806
27	342	Stores Equipment		-	-	-	-	-	-
28	343	Tools and Work Equipment		15,645	-	-	-	-	15,645
29	344	Laboratory Equipment		-	-	-	-	-	-
30	345	Power Operated Equipment		-	-	-	-	-	-
31	346	Communications Equipment		-	-	-	-	-	-
32	347	Miscellaneous Equipment		5,190	-	-	-	-	5,190
33	348	Other Tangible Plant		-	-	-	-	-	-
34		1998 ACC Plant Adjustment		(149,395)	-	-	-	-	(149,395)
35		Rounding		-	-	-	-	-	-
36		TOTALS		\$ 20,158,709	\$ -	\$ (92,956)	\$ -	\$ -	\$ 20,065,753
37		Plant-in-Service per Books							\$ 20,158,709
38		Increase (decrease) in Plant-in-Service							\$ (92,956)
39		Adjustment to Plant-in-Service							\$ (92,956)

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -A

Exhibit
Rebuttal Schedule B-2
Page 3.1
Witness: Bourassa

Line

<u>No.</u>			
1	<u>Reclassify Retired Plant</u>		
2			
3			
4	Acct.		PIS
5	<u>No.</u>	<u>Description</u>	<u>Adjustment</u>
6	301	Organization Cost	
7	302	Franchise Cost	
8	303	Land and Land Rights	
9	304	Structures and Improvements	
10	305	Collecting and Impounding Res.	
11	306	Lake River and Other Intakes	
12	307	Wells and Springs	
13	308	Infiltration Galleries and Tunnels	
14	309	Supply Mains	
15	310	Power Generation Equipment	
16	311	Electric Pumping Equipment	1,838
17	320	Water Treatment Equipment	
18	320.1	Water Treatment Plant	
19	320.2	Chemical Solution Feeders	
20	330	Dist. Reservoirs & Standpipe	25,642
21	330.1	Storage tanks	
22	330.2	Pressure Tanks	
23	331	Trans. and Dist. Mains	
24	333	Services	
25	334	Meters	
26	335	Hydrants	
27	336	Backflow Prevention Devices	
28	339	Other Plant and Misc. Equip.	
29	340	Office Furniture and Fixtures	(27,480)
30	340.1	Computers and Software	
31	341	Transportation Equipment	
32	342	Stores Equipment	
33	343	Tools and Work Equipment	
34	344	Laboratory Equipment	
35	345	Power Operated Equipment	
36	346	Communications Equipment	
37	347	Miscellaneous Equipment	
38	348	Other Tangible Plant	
39		1998 ACC Plant Adjustment	
40		TOTALS	\$ -
41			
42			
43	<u>SUPPORTING SCHEDULE</u>		
44	Staff Schedule JMM-6		
45	B-2, pages 3.4 to 3.16		

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -B

Exhibit
Rebuttal Schedule B-2
Page 3.2
Witness: Bourassa

Line

<u>No.</u>			
1	<u>Retirements Not Recorded</u>		
2			
3			
4	Acct.		PIS
5	<u>No.</u>	<u>Description</u>	<u>Adjustment</u>
6	301	Organization Cost	
7	302	Franchise Cost	
8	303	Land and Land Rights	
9	304	Structures and Improvements	(1,978)
10	305	Collecting and Impounding Res.	
11	306	Lake River and Other Intakes	
12	307	Wells and Springs	
13	308	Infiltration Galleries and Tunnels	
14	309	Supply Mains	
15	310	Power Generation Equipment	
16	311	Electric Pumping Equipment	(29,479)
17	320	Water Treatment Equipment	
18	320.1	Water Treatment Plant	
19	320.2	Chemical Solution Feeders	
20	330	Dist. Reservoirs & Standpipe	(61,499)
21	330.1	Storage tanks	
22	330.2	Pressure Tanks	
23	331	Trans. and Dist. Mains	
24	333	Services	
25	334	Meters	
26	335	Hydrants	
27	336	Backflow Prevention Devices	
28	339	Other Plant and Misc. Equip.	
29	340	Office Furniture and Fixtures	
30	340.1	Computers and Software	
31	341	Transportation Equipment	
32	342	Stores Equipment	
33	343	Tools and Work Equipment	
34	344	Laboratory Equipment	
35	345	Power Operated Equipment	
36	346	Communications Equipment	
37	347	Miscellaneous Equipment	
38	348	Other Tangible Plant	
39		1998 ACC Plant Adjustment	
40		TOTALS	\$ (92,956)
41			
42			
43	<u>SUPPORTING SCHEDULE</u>		
44	B-2, page 3.2.1		
45	B-2, pages 3.4 to 3.16		

VAIL WATER COMPANY
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment Number 1 -B
Retirements Not Recorded

Exhibit
Schedule B-2
Page 3.2.1

|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|

(1) Golos & Andrada together - retirement cost was \$71,200

Total \$ 281,388 \$ 92,956

Vail Water Company
Plant Additions and Retirements

Exhibit
Rebuttal Schedule
Page 3.4
Witness: Bourassa

NARUC			Per Decision 62450		1999								
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant at 12/31/1998	Accum. Deprec. At 12/31/2008	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	3,500	-	-	-	-	-	-	-	3,500	-
4	304	Structures & Improvements	2.80%	62,198	17,499	2,753	-	2,753	-	-	1,780	64,951	19,279
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	155,446	43,733	17,905	-	17,905	-	-	5,261	173,351	48,993
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	295,681	83,186	12,860	-	12,860	-	-	10,876	308,541	94,062
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	118,072	33,218	1,825	-	1,825	-	-	2,380	119,897	35,598
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,413,166	397,575	271,852	-	271,852	-	-	30,982	1,685,018	428,557
19	333	Services	3.30%	15,376	4,326	-	(2,950)	(2,950)	-	-	459	12,426	4,785
20	334	Meters	3.60%	105,774	29,758	44,429	-	44,429	-	-	4,608	150,203	34,366
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.60%	2,701	760	2,973	-	2,973	-	-	151	5,674	911
24	340	Office Furniture & Equipment	6.80%	4,039	1,136	1,290	-	1,290	-	-	319	5,329	1,455
25	340.1	Computers & Software	6.80%	-	-	-	2,950	2,950	-	-	100	2,950	100
26	341	Transportation Equipment	13.30%	32,900	9,256	20,247	-	20,247	13,907	-	4,797	39,240	146
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	827	233	-	-	-	827	-	32	-	(562)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	-	-	-
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	(149,395)	(100,842)	-	-	-	-	-	(3,944)	(149,395)	(104,786)
35		TOTAL S.		2,060,285	500,987	376,134	-	376,134	14,734	-	57,799	2,421,685	562,903

Vail Water Company
Plant Additions and Retirements

Exhibit
Rebuttal Schedule
Page 3.5
Witness: Bourassa

NARUC			Allowed Deprec. Rate	2000									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	3,500	-
4	304	Structures & Improvements	2.80%	-	-	-	-	1,322	1,322	-	1,800	63,629	19,757
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	12,731	-	12,731	-	-	-	-	5,751	186,082	54,744
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	11,820	-	11,820	-	1,141	1,141	-	11,300	319,220	104,221
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	4,487	-	4,487	-	830	830	-	2,435	123,554	37,202
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	45,393	-	45,393	-	-	-	-	34,154	1,730,411	462,712
19	333	Services	3.30%	25	-	25	-	-	-	-	410	12,451	5,195
20	334	Meters	3.60%	38,863	-	38,863	-	-	-	-	6,107	189,066	40,473
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.60%	879	-	879	-	-	-	-	220	6,553	1,131
24	340	Office Furniture & Equipment	6.80%	2,326	-	2,326	-	-	-	-	441	7,655	1,896
25	340.1	Computers & Software	6.80%	6,229	-	6,229	-	-	-	-	412	9,179	513
26	341	Transportation Equipment	13.30%	-	-	-	-	-	-	-	5,219	39,240	5,365
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	794	-	794	-	-	-	-	31	794	(532)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	5,190	-	5,190	-	-	-	-	93	5,190	93
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	-	-	(3,944)	(149,395)	(108,730)
35		TOTALS		128,737	-	128,737	-	3,293	3,293	-	64,430	2,547,129	624,040

Vail Water Company
Plant Additions and Retirements

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NARUC		2001									
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	3,500	-
4	304	Structures & Improvements	2.80%	-	-	-	-	-	1,782	63,629	21,538
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	201,146	-	201,146	-	-	9,173	387,228	63,917
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	-	-	-	-	-	11,492	319,220	115,713
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	323,144	-	323,144	-	-	5,703	446,698	42,905
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,073,094	-	1,073,094	-	-	45,339	2,803,505	508,051
19	333	Services	3.30%	-	-	-	-	-	411	12,451	5,606
20	334	Meters	3.60%	64,869	-	64,869	-	-	7,974	253,935	48,447
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	236	6,553	1,367
24	340	Office Furniture & Equipment	6.80%	-	-	-	-	-	562	8,862	2,458
25	340.1	Computers & Software	6.80%	1,207	-	1,207	-	-	624	9,179	1,137
26	341	Transportation Equipment	13.30%	-	-	-	-	-	5,219	39,240	10,584
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	-	-	-	-	-	61	794	(471)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	187	5,190	280
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	(3,944)	(149,395)	(112,674)
35		TOTALS		1,663,460	-	1,663,460	-	-	84,818	4,210,589	708,857

Vail Water Company
Plant Additions and Retirements

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NARUC			Allowed Deprec. Rate	2002									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments ¹	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	7,500	-	7,500	-	-	-	-	-	11,000	-
4	304	Structures & Improvements	2.80%	-	-	-	2,000	-	2,000	-	1,754	61,629	21,292
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	8,598	-	8,598	-	-	-	-	12,529	395,826	76,446
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	309,156	-	309,156	-	-	-	-	17,057	628,376	132,769
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	-	-	-	15,000	-	15,000	-	8,784	431,698	36,689
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,784,712	-	1,784,712	-	-	-	-	73,917	4,588,217	581,968
19	333	Services	3.30%	-	-	-	-	-	-	-	411	12,451	6,017
20	334	Meters	3.60%	82,558	-	82,558	-	-	-	-	10,628	336,493	59,074
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	-	-	236	6,553	1,603
24	340	Office Furniture & Equipment	6.80%	5,719	-	5,719	-	-	-	-	797	14,581	3,255
25	340.1	Computers & Software	6.80%	3,316	-	3,316	-	-	-	-	737	12,495	1,874
26	341	Transportation Equipment	13.30%	-	-	-	-	-	-	-	5,219	39,240	15,803
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	1,750	-	1,750	-	-	-	-	129	2,544	(342)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	187	5,190	467
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	-	-	(3,944)	(149,395)	(116,618)
35													
36		TOTALS		2,203,309	-	2,203,309	17,000	-	17,000	-	128,439	6,396,898	820,297

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NARUC			Allowed Deprec. Rate	2003									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	11,000	-	-
4	304	Structures & Improvements	2.80%	39,852	39,852	-	-	-	-	2,284	101,481	23,576	23,576
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	168,351	168,351	-	-	-	-	15,360	564,177	91,806	91,806
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	276,980	276,980	-	14,796	14,796	-	27,341	890,560	145,314	145,314
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	349,054	349,054	-	20,961	20,961	-	11,915	759,791	27,643	27,643
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	647,298	647,298	-	-	-	-	98,237	5,235,515	680,205	680,205
19	333	Services	3.30%	-	-	-	-	-	-	411	12,451	6,428	6,428
20	334	Meters	3.60%	43,395	43,395	-	-	-	-	12,895	379,888	71,969	71,969
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	-	-	-
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	-	236	6,553	1,838	1,838
24	340	Office Furniture & Equipment	6.80%	9,943	9,943	-	-	-	-	1,330	24,524	4,584	4,584
25	340.1	Computers & Software	6.80%	1,625	1,625	-	-	-	-	905	14,120	2,779	2,779
26	341	Transportation Equipment	13.30%	21,808	21,808	-	-	-	-	6,669	61,048	22,472	22,472
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	490	490	-	-	-	-	215	3,034	(128)	(128)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	187	5,190	654	654
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	-	(3,944)	(149,395)	(120,562)	(120,562)
35				1,558,796	-	-	35,757	35,757	-	174,040	7,919,937	958,579	958,579
36		TOTALS			1,558,796	-	35,757	35,757	-	174,040	7,919,937	958,579	958,579

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NARUC			Allowed Deprec. Rate	2004									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	11,000	-
4	304	Structures & Improvements	2.80%	13,214	-	13,214	-	-	-	-	3,026	114,695	26,602
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	14,693	-	14,693	-	-	-	-	18,289	578,870	110,095
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	14,116	-	14,116	-	2,479	2,479	-	32,270	902,197	175,105
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	-	-	-	-	6,806	6,806	-	15,128	752,985	35,964
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	3,233,912	-	3,233,912	71,200	-	71,200	-	136,337	8,398,227	745,343
19	333	Services	3.30%	-	-	-	-	-	-	-	411	12,451	6,839
20	334	Meters	3.60%	205,315	(11,621)	193,694	3,685	-	3,685	-	17,096	569,897	85,380
21	335	Hydrants	3.60%	-	5,067	5,067	-	-	-	-	91	5,067	91
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	236	6,553	2,074
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	-	-	1,699	25,457	6,284
24	340	Office Furniture & Equipment	6.80%	933	-	933	-	-	-	-	960	14,120	3,739
25	340.1	Computers & Software	6.80%	-	-	-	-	-	-	-	7,508	51,856	(9,259)
26	341	Transportation Equipment	13.30%	30,048	-	30,048	39,240	-	39,240	-	-	-	-
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	5,201	-	5,201	915	-	915	-	399	7,320	(644)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	187	5,190	841
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	-	-	(3,944)	(149,395)	(124,506)
35		TOTALS		3,517,432	(6,554)	3,510,878	115,040	9,285	124,325	-	229,693	11,306,490	1,063,947

Vail Water Company
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NARUC			Allowed Deprec. Rate	2005									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	11,000	-
4	304	Structures & Improvements	2.80%	16,415	-	16,415	-	656	656	-	3,432	130,454	29,378
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	486,713	-	486,713	-	-	-	26,311	-	1,065,583	136,406
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	385,087	-	385,087	-	1,531	1,531	-	39,383	1,285,753	212,957
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	201,590	-	201,590	-	29,926	29,926	-	16,776	924,649	22,815
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,751,217	-	1,751,217	-	-	-	-	185,477	10,149,444	930,819
19	333	Services	3.30%	-	-	-	-	-	-	-	411	12,451	7,249
20	334	Meters	3.60%	311,350	-	311,350	72,274	-	72,274	-	24,820	808,973	37,926
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	-	-	-	-	-	-	-	182	5,067	274
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	-	-	236	6,553	2,310
24	340	Office Furniture & Equipment	6.80%	3,327	-	3,327	-	-	-	-	1,844	28,784	8,128
25	340.1	Computers & Software	6.80%	-	-	-	-	-	-	-	960	14,120	4,699
26	341	Transportation Equipment	13.30%	-	-	-	-	-	-	-	6,897	51,856	(2,363)
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	651	-	651	-	-	-	589	-	7,971	(55)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	187	5,190	1,028
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	-	-	(3,944)	(149,395)	(128,450)
35		TOTALS		3,156,350	-	3,156,350	72,274	32,113	104,387	-	303,561	14,358,453	1,263,121

Vail Water Company
Plant Additions and Retirements

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NARUC			Allowed Deprec. Rate	2006									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	11,000	-
4	304	Structures & Improvements	2.80%	44,562	-	44,562	-	-	-	-	4,277	175,016	33,655
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	61,396	-	61,396	-	-	-	-	35,081	1,126,979	171,487
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	-	-	-	-	9,532	9,532	-	-	1,276,221	249,540
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	-	-	-	-	2,976	2,976	-	18,463	921,673	38,302
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,425,350	-	1,425,350	-	-	-	-	217,242	11,574,794	1,148,062
19	333	Services	3.30%	-	-	-	-	-	-	-	411	12,451	7,660
20	334	Meters	3.60%	112,794	-	112,794	94,234	-	94,234	-	29,457	827,533	(26,851)
21	335	Hydrants	3.60%	-	-	-	-	-	-	-	-	-	-
22	336	Backflow Prevention Devices	3.60%	2,947	-	2,947	-	-	-	-	235	8,014	509
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	-	-	236	6,553	2,546
24	340	Office Furniture & Equipment	6.80%	212	-	212	-	-	-	-	1,965	28,996	10,093
25	340.1	Computers & Software	6.80%	1,500	-	1,500	-	-	-	-	1,011	15,620	5,710
26	341	Transportation Equipment	13.30%	-	-	-	-	-	-	-	6,897	51,856	4,534
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	212	-	212	-	-	-	-	622	8,183	567
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	187	5,190	1,214
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	-	-	(3,944)	(149,395)	(132,394)
35		TOTALS		1,648,973	-	1,648,973	94,234	12,508	106,742	-	358,255	15,900,684	1,514,635

Vail Water Company
Plant Additions and Retirements

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NARUC			2007								
Line No.	Account No.	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	6,750	-	6,750	-	-	-	17,750	-
4	304	Structures & Improvements	2.80%	218,451	-	218,451	-	-	7,959	393,467	41,613
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	-	-	-	-	-	36,063	1,126,979	207,551
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	244,070	-	244,070	-	-	50,337	1,520,291	299,878
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	609,673	-	609,673	-	-	24,530	1,531,346	62,832
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	1,877,226	-	1,877,226	-	-	250,268	13,452,020	1,398,330
19	333	Services	3.30%	-	-	-	59,683	-	411	12,451	8,071
20	334	Meters	3.60%	41,452	-	41,452	-	-	29,463	809,302	(57,071)
21	335	Hydrants	3.60%	354,032	-	354,032	-	-	6,373	354,032	6,373
22	336	Backflow Prevention Devices	3.60%	-	-	-	2,238	-	248	5,776	(1,481)
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	236	6,553	2,782
24	340	Office Furniture & Equipment	6.80%	-	-	-	-	-	1,972	28,996	12,064
25	340.1	Computers & Software	6.80%	-	-	-	-	-	1,062	15,620	6,772
26	341	Transportation Equipment	13.30%	-	-	-	-	-	6,897	51,856	11,431
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	5,756	-	5,756	2,915	-	739	11,024	(1,609)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	187	5,190	1,401
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	(3,944)	(149,395)	(136,338)
35		TOTALS		3,357,410	-	3,357,410	64,836	-	412,801	19,193,258	1,862,600

Vail Water Company
Plant Additions and Retirements

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NARUC			Allowed Deprec. Rate	2008									
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Retirement Adjustments	Adjusted Plant Retirements	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%	-	-	-	-	-	-	-	-	-	-
2	302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-	-	-
3	303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-	17,750	-
4	304	Structures & Improvements	2.80%	3,882	-	3,882	-	-	-	-	11,071	397,349	52,685
5	305	Collecting & Impounding Reservoirs	0.00%	-	-	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%	-	-	-	-	-	-	-	-	-	-
7	307	Wells & Springs	3.20%	-	-	-	-	-	-	-	-	-	-
8	308	Infiltration Galleries	0.00%	-	-	-	-	-	-	-	36,063	1,126,979	243,614
9	309	Raw Water Supply Mains	2.00%	-	-	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
11	311	Pumping Equipment	3.60%	-	-	-	1,838	(1,838)	-	-	54,730	1,520,291	354,608
12	320	Water Treatment Equipment	2.58%	-	-	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants	0.00%	-	-	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%	-	-	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	51,600	-	51,600	25,642	(25,642)	-	-	31,143	1,582,946	93,975
16	330.1	Storage Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks	0.00%	-	-	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	367,475	-	367,475	-	-	-	-	272,715	13,819,495	1,671,045
19	333	Services	3.30%	-	-	-	-	-	-	-	411	12,451	8,482
20	334	Meters	3.60%	98,538	-	98,538	34,117	-	34,117	-	30,294	873,723	(60,894)
21	335	Hydrants	3.60%	120,356	-	120,356	-	-	-	-	14,912	474,388	21,284
22	336	Backflow Prevention Devices	3.60%	2,125	-	2,125	-	-	-	-	246	7,901	(1,235)
23	339	Other Plant & Misc Equipment	3.60%	-	-	-	-	-	-	-	236	6,553	3,018
24	340	Office Furniture & Equipment	6.80%	1,430	-	1,430	5,697	27,480	33,177	-	892	(2,751)	(20,220)
25	340.1	Computers & Software	6.80%	-	-	-	-	-	-	-	1,062	15,620	7,834
26	341	Transportation Equipment	13.30%	11,000	-	11,000	8,050	-	8,050	-	7,093	54,806	10,474
27	342	Stores Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	1,610	-	1,610	-	-	-	-	911	12,634	(698)
29	344	Laboratory Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
31	346	Communication Equipment	0.00%	-	-	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment	3.60%	-	-	-	-	-	-	-	187	5,190	1,588
33	348	Other Tangible Plant	0.00%	-	-	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%	-	-	-	-	-	-	-	(3,944)	(149,395)	(140,282)
35		TOTALS		658,016	-	658,016	75,344	-	75,344	-	458,023	19,775,930	2,245,280

Vail Water Company
Plant Additions and Retirements

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NARUC			2009								
Line	Account	Description	Allowed Deprec. Rate	Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
No.	No.										
1	301	Organization Cost	0.00%			-			-	-	-
2	302	Franchise Cost	0.00%			-			-	-	-
3	303	Land and Land Rights	0.00%			-			-	17,750	-
4	304	Structures & Improvements	2.80%			-			11,126	397,349	63,811
5	305	Collecting & Impounding Reservoirs	0.00%			-			-	-	-
6	306	Lake, River, Canal Intakes	0.00%			-			-	-	-
7	307	Wells & Springs	3.20%			-			36,063	1,126,979	279,677
8	308	Infiltration Galleries	0.00%			-			-	-	-
9	309	Raw Water Supply Mains	2.00%			-			-	-	-
10	310	Power Generation Equipment	0.00%			-			-	-	-
11	311	Pumping Equipment	3.60%	546		546			54,740	1,520,837	409,348
12	320	Water Treatment Equipment	2.58%			-			-	-	-
13	320.1	Water Treatment Plants	0.00%			-			-	-	-
14	320.2	Solution Chemical Feeders	0.00%			-			-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%	2,266		2,266			31,682	1,585,212	125,657
16	330.1	Storage Tanks	0.00%			-			-	-	-
17	330.2	Pressure Tanks	0.00%			-			-	-	-
18	331	Transmission & Distribution Mains	2.00%	2,995		2,995			276,420	13,822,490	1,947,465
19	333	Services	3.30%			-			411	12,451	8,893
20	334	Meters	3.60%	33,038		33,038	22,935		31,636	883,826	(52,193)
21	335	Hydrants	3.60%	3,570		3,570			17,142	477,958	38,426
22	336	Backflow Prevention Devices	3.60%			-			284	7,901	(950)
23	339	Other Plant & Misc Equipment	3.60%			-			236	6,553	3,254
24	340	Office Furniture & Equipment	6.80%	4,951		4,951			(19)	2,200	(20,239)
25	340.1	Computers & Software	6.80%			-			1,062	15,620	8,897
26	341	Transportation Equipment	13.30%			-			7,289	54,806	17,764
27	342	Stores Equipment	0.00%			-			-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	409		409			989	13,043	291
29	344	Laboratory Equipment	0.00%			-			-	-	-
30	345	Power Operated Equipment	0.00%			-			-	-	-
31	346	Communication Equipment	0.00%			-			-	-	-
32	347	Miscellaneous Equipment	3.60%			-			187	5,190	1,775
33	348	Other Tangible Plant	0.00%			-			-	-	-
34		1983 ACC Adjustment to Plant	2.64%			-			(3,944)	(149,395)	(144,226)
35		TOTALS		47,775	-	47,775	22,935	-	465,304	19,800,770	2,687,649

Vail Water Company
Plant Additions and Retirements

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NARUC				2010								
Line	Account			Allowed	Plant	Plant	Adjusted	Plant	Salvage	Depreciation	Plant	Accum.
No.	No.	Description		Deprec. Rate	Additions (Per Books)	Adjustments	Plant Additions	Retirements (Per Books)	A/D Only	(Calculated)	Balance	Deprec.
1	301	Organization Cost		0.00%	-	-	-	-	-	-	-	-
2	302	Franchise Cost		0.00%	-	-	-	-	-	-	-	-
3	303	Land and Land Rights		0.00%	-	-	-	-	-	-	17,750	-
4	304	Structures & Improvements		2.80%	-	-	-	-	-	11,126	397,349	74,936
5	305	Collecting & Impounding Reservoirs		0.00%	-	-	-	-	-	-	-	-
6	306	Lake, River, Canal Intakes		0.00%	-	-	-	-	-	-	-	-
7	307	Wells & Springs		3.20%	-	-	-	-	-	36,063	1,126,979	315,741
8	308	Infiltration Galleries		0.00%	-	-	-	-	-	-	-	-
9	309	Raw Water Supply Mains		2.00%	-	-	-	-	-	-	-	-
10	310	Power Generation Equipment		0.00%	-	-	-	-	-	-	-	-
11	311	Pumping Equipment		3.60%	1,877	-	1,877	-	-	54,784	1,522,714	464,132
12	320	Water Treatment Equipment		2.58%	-	-	-	-	-	-	-	-
13	320.1	Water Treatment Plants		0.00%	-	-	-	-	-	-	-	-
14	320.2	Solution Chemical Feeders		0.00%	-	-	-	-	-	-	-	-
15	330	Distribution Reservoirs & Standpipes		2.00%	-	-	-	-	-	31,704	1,585,212	157,361
16	330.1	Storage Tanks		0.00%	-	-	-	-	-	-	-	-
17	330.2	Pressure Tanks		0.00%	-	-	-	-	-	-	-	-
18	331	Transmission & Distribution Mains		2.00%	-	-	-	-	-	276,450	13,822,490	2,223,915
19	333	Services		3.30%	-	-	-	-	-	411	12,451	9,304
20	334	Meters		3.60%	31,537	-	31,537	11,215	-	32,184	904,148	(31,224)
21	335	Hydrants		3.60%	-	-	-	-	-	17,206	477,958	55,633
22	336	Backflow Prevention Devices		3.60%	-	-	-	-	-	284	7,901	(666)
23	339	Other Plant & Misc Equipment		3.60%	-	-	-	-	-	236	6,553	3,490
24	340	Office Furniture & Equipment		6.80%	-	-	-	-	-	150	2,200	(20,090)
25	340.1	Computers & Software		6.80%	-	-	-	-	-	1,062	15,620	9,959
26	341	Transportation Equipment		13.30%	-	-	-	-	-	7,289	54,806	25,053
27	342	Stores Equipment		0.00%	-	-	-	-	-	-	-	-
28	343	Tools, Shop & Garage Equipment		7.70%	-	-	-	-	-	1,004	13,043	1,295
29	344	Laboratory Equipment		0.00%	-	-	-	-	-	-	-	-
30	345	Power Operated Equipment		0.00%	-	-	-	-	-	-	-	-
31	346	Communication Equipment		0.00%	-	-	-	-	-	-	-	-
32	347	Miscellaneous Equipment		3.60%	-	-	-	-	-	187	5,190	1,962
33	348	Other Tangible Plant		0.00%	-	-	-	-	-	-	-	-
34		1983 ACC Adjustment to Plant		2.64%	-	-	-	-	-	(3,944)	(149,395)	(148,170)
35					33,414	-	33,414	11,215	-	466,196	19,822,969	3,142,630
36		TOTALS										

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Rebuttal Schedule
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NARUC			Allowed Deprec. Rate	2011							
Line No.	Account No.	Description		Plant Additions (Per Books)	Plant Adjustments	Adjusted Plant Additions	Plant Retirements (Per Books)	Salvage A/D Only	Depreciation (Calculated)	Plant Balance	Accum. Deprec.
1	301	Organization Cost	0.00%			-		-	-	-	-
2	302	Franchise Cost	0.00%			-		-	-	-	-
3	303	Land and Land Rights	0.00%			-		-	17,750	-	-
4	304	Structures & Improvements	2.80%		1	1		11,126	397,350	86,062	-
5	305	Collecting & Impounding Reservoirs	0.00%			-		-	-	-	-
6	306	Lake, River, Canal Intakes	0.00%			-		-	-	-	-
7	307	Wells & Springs	3.20%			-		36,063	1,126,979	351,804	-
8	308	Infiltration Galleries	0.00%			-		-	-	-	-
9	309	Raw Water Supply Mains	2.00%		2,995	2,995	30	-	2,995	-	30
10	310	Power Generation Equipment	0.00%			-		-	-	-	-
11	311	Pumping Equipment	3.60%	2,756	(1)	2,755		54,867	1,525,469	519,000	-
12	320	Water Treatment Equipment	2.58%			-		-	-	-	-
13	320.1	Water Treatment Plants	0.00%			-		-	-	-	-
14	320.2	Solution Chemical Feeders	0.00%			-		-	-	-	-
15	330	Distribution Reservoirs & Standpipes	2.00%			-		31,704	1,585,212	189,065	-
16	330.1	Storage Tanks	0.00%			-		-	-	-	-
17	330.2	Pressure Tanks	0.00%			-		-	-	-	-
18	331	Transmission & Distribution Mains	2.00%	203,539	(2,995)	200,544		-	14,023,034	2,502,370	-
19	333	Services	3.30%			-		411	12,451	9,715	-
20	334	Meters	3.60%	32,042	1	32,043	13,109	32,890	923,082	(11,443)	-
21	335	Hydrants	3.60%	14,950		14,950		17,476	492,908	73,108	-
22	336	Backflow Prevention Devices	3.60%			-		284	7,901	(381)	-
23	339	Other Plant & Misc Equipment	3.60%			-		236	6,553	3,726	-
24	340	Office Furniture & Equipment	6.80%		3	3		150	2,203	(19,940)	-
25	340.1	Computers & Software	6.80%		1	1		1,062	15,621	11,021	-
26	341	Transportation Equipment	13.30%			-		7,289	54,806	32,342	-
27	342	Stores Equipment	0.00%			-		-	-	-	-
28	343	Tools, Shop & Garage Equipment	7.70%	2,602		2,602		1,104	15,645	2,399	-
29	344	Laboratory Equipment	0.00%			-		-	-	-	-
30	345	Power Operated Equipment	0.00%			-		-	-	-	-
31	346	Communication Equipment	0.00%			-		-	-	-	-
32	347	Miscellaneous Equipment	3.60%			-		187	5,190	2,148	-
33	348	Other Tangible Plant	0.00%			-		-	-	-	-
34		1983 ACC Adjustment to Plant	2.64%			-		(1,225)	(149,395)	(149,395)	-
35		TOTAL S.		255,889	5	255,894	13,109	-	20,065,753	3,601,631	-

Exhibit
Rebuttal Schedule B-2
Page 3.3
Witness: Bourassa

Line No.		Direct		Rebuttal	Rebuttal	
		Adjusted		Adjusted	Plant	
	Acct.	Original	Rebuttal	Original	Per	
	No. Description	Cost	Adjustments	Cost	Reconstruction	Adjustment
1	<u>Adjustments to Reconcile to Reconstructed PIS Balance</u>					
2						
3						
4						
5	301	Organization Cost	-	-	-	-
6	302	Franchise Cost	-	-	-	-
7	303	Land and Land Rights	17,750	17,750	17,750	-
8	304	Structures and Improvements	399,328	(1,978)	397,350	-
9	305	Collecting and Impounding Res.	-	-	-	-
10	306	Lake River and Other Intakes	-	-	-	-
11	307	Wells and Springs	1,126,979	-	1,126,979	-
12	308	Infiltration Galleries and Tunnels	-	-	-	-
13	309	Supply Mains	2,995	-	2,995	-
14	310	Power Generation Equipment	-	-	-	-
15	311	Electric Pumping Equipment	1,553,110	(27,641)	1,525,469	-
16	320	Water Treatment Equipment	-	-	-	-
17	320.1	Water Treatment Plant	-	-	-	-
18	320.2	Chemical Solution Feeders	-	-	-	-
19	330	Dist. Reservoirs & Standpipe	1,621,069	(35,857)	1,585,212	-
20	330.1	Storage tanks	-	-	-	-
21	330.2	Pressure Tanks	-	-	-	-
22	331	Trans. and Dist. Mains	14,023,034	-	14,023,034	-
23	333	Services	12,451	-	12,451	-
24	334	Meters	923,082	-	923,082	-
25	335	Hydrants	492,908	-	492,908	-
26	336	Backflow Prevention Devices	7,901	-	7,901	-
27	339	Other Plant and Misc. Equip.	6,553	-	6,553	-
28	340	Office Furniture and Fixtures	29,683	(27,480)	2,203	-
29	340.1	Computers and Software	15,621	-	15,621	-
30	341	Transportation Equipment	54,806	-	54,806	-
31	342	Stores Equipment	-	-	-	-
32	343	Tools and Work Equipment	15,645	-	15,645	-
33	344	Laboratory Equipment	-	-	-	-
34	345	Power Operated Equipment	-	-	-	-
35	346	Communications Equipment	-	-	-	-
36	347	Miscellaneous Equipment	5,190	-	5,190	-
37	348	Other Tangible Plant	-	-	-	-
38		1998 ACC Plant Adjustment	(149,395)	(149,395)	(149,395)	-
39		TOTALS	\$ 20,158,709	\$ (92,956)	\$ 20,065,753	\$ -
40						
41						
42						
43	<u>SUPPORTING SCHEDULE</u>					
44	B-2, pages 3.1 and 3.2					
45	B-2, pages 3.4 to 3.16					

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Accumulated Depreciation										
Line No.	Acct. No.	Description	Direct Accum. Depr.	A Retire Plant	B Plant Retirements	C Adjustments to Reconcile to Reconstructed Balance	D Intentionally Left Blank	E Intentionally Left Blank		Rebuttal Adjusted Accum. Depr.
1	301	Organization Cost	-	-	-	-	-	-		-
2	302	Franchise Cost	-	-	-	-	-	-		-
3	303	Land and Land Rights	-	-	-	-	-	-		-
4	304	Structures and Improvements	88,696	-	(1,978)	(656)	-	-		86,062
5	305	Collecting and Impounding Res.	-	-	-	-	-	-		-
6	306	Lake River and Other Intakes	-	-	-	-	-	-		-
7	307	Wells and Springs	352,116	-	-	(312)	-	-		351,804
8	308	Infiltration Galleries and Tunnels	-	-	-	-	-	-		-
9	309	Supply Mains	31	-	-	(1)	-	30		-
10	310	Power Generation Equipment	-	-	-	-	-	-		-
11	311	Electric Pumping Equipment	554,754	232	(29,479)	(6,507)	-	-		519,000
12	320	Water Treatment Equipment	-	-	-	-	-	-		-
13	320.1	Water Treatment Plant	-	-	-	-	-	-		-
14	320.2	Chemical Solution Feeders	-	-	-	-	-	-		-
15	330	Dist. Reservoirs & Standpipe	232,569	1,795	(61,499)	16,200	-	-		189,065
16	330.1	Storage tanks	-	-	-	-	-	-		-
17	330.2	Pressure Tanks	-	-	-	-	-	-		-
18	331	Trans. and Dist. Mains	2,506,255	-	-	(3,885)	-	-		2,502,370
19	333	Services	9,718	-	-	(3)	-	-		9,715
20	334	Meters	(11,187)	-	-	(256)	-	-		(11,443)
21	335	Hydrants	73,245	-	-	(137)	-	-		73,108
22	336	Backflow Prevention Devices	(379)	-	-	(2)	-	(381)		(381)
23	339	Other Plant and Misc. Equip.	3,728	-	-	(2)	-	-		3,726
24	340	Office Furniture and Fixtures	14,089	-	-	(27,488)	-	-		(19,940)
25	340.1	Computers and Software	11,025	(6,540)	-	(4)	-	-		11,021
26	341	Transportation Equipment	32,357	-	-	(15)	-	-		32,342
27	342	Stores Equipment	-	-	-	-	-	-		-
28	343	Tools and Work Equipment	2,404	-	-	(4)	-	-		2,399
29	344	Laboratory Equipment	-	-	-	-	-	-		-
30	345	Power Operated Equipment	-	-	-	-	-	-		-
31	346	Communications Equipment	-	-	-	-	-	-		-
32	347	Miscellaneous Equipment	2,150	-	-	(1)	-	-		2,148
33	348	Other Tangible Plant	-	-	-	-	-	-		-
34		1998 ACC Plant Adjustment	(149,395)	-	-	-	-	-		(149,395)
35		TOTALS	\$ 3,722,176	\$ (4,514)	\$ (92,956)	\$ (23,075)	\$ -	\$ -		\$ 3,601,631
36		Accumulated Depreciation per Books								\$ 3,722,176
37		Increase (decrease) in Accumulated Depreciation								\$ (120,545)
38		Adjustment to Accumulated Depreciation								\$ (120,545)

SUPPORTING SCHEDULES
B-2, pages 4.1 to 4.3

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2 -A

Exhibit
Rebuttal Schedule B-2
Page 4.1
Witness: Bourassa

Line

<u>No.</u>	<u>A/D rRelated to Reclassified Retired Plant</u>				
1					
2					
3					
4	Acct.	PIS	Years	Depr	A/D
5	<u>No. Description</u>	<u>Adjustment</u>	<u>(1/2 Conv.)</u>	<u>Rate</u>	<u>Adjustment</u>
6	301 Organization Cost	-			
7	302 Franchise Cost	-			
8	303 Land and Land Rights	-			
9	304 Structures and Improvements	-			
10	305 Collecting and Impounding Res.	-			
11	306 Lake River and Other Intakes	-			
12	307 Wells and Springs	-			
13	308 Infiltration Galleries and Tunnels	-			
14	309 Supply Mains	-			
15	310 Power Generation Equipment	-			
16	311 Electric Pumping Equipment	1,838	3.50	3.6%	232
17	320 Water Treatment Equipment	-			
18	320.1 Water Treatment Plant	-			
19	320.2 Chemical Solution Feeders	-			
20	330 Dist. Reservoirs & Standpipe	25,642	3.50	2.0%	1,795
21	330.1 Storage tanks	-			
22	330.2 Pressure Tanks	-			
23	331 Trans. and Dist. Mains	-			
24	333 Services	-			
25	334 Meters	-			
26	335 Hydrants	-			
27	336 Backflow Prevention Devices	-			
28	339 Other Plant and Misc. Equip.	-			
29	340 Office Furniture and Fixtures	(27,480)	3.50	6.8%	(6,540)
30	340.1 Computers and Software	-			
31	341 Transportation Equipment	-			
32	342 Stores Equipment	-			
33	343 Tools and Work Equipment	-			
34	344 Laboratory Equipment	-			
35	345 Power Operated Equipment	-			
36	346 Communications Equipment	-			
37	347 Miscellaneous Equipment	-			
38	348 Other Tangible Plant	-			
39	1998 ACC Plant Adjustment	-			-
40	TOTALS	\$ -			\$ (4,514)

41

42

43 SUPPORTING SCHEDULE

44 B-2, page 3.1

45 B-2, pages 3.4 to 3.16

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2-B

Exhibit
Rebuttal Schedule B-2
Page 4.2
Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Retirements Not Recorded</u>		
2			
3			
4	Acct.		A/D
5	<u>No.</u>	<u>Description</u>	<u>Adjustment</u>
6	301	Organization Cost	
7	302	Franchise Cost	
8	303	Land and Land Rights	
9	304	Structures and Improvements	(1,978)
10	305	Collecting and Impounding Res.	
11	306	Lake River and Other Intakes	
12	307	Wells and Springs	
13	308	Infiltration Galleries and Tunnels	
14	309	Supply Mains	
15	310	Power Generation Equipment	
16	311	Electric Pumping Equipment	(29,479)
17	320	Water Treatment Equipment	
18	320.1	Water Treatment Plant	
19	320.2	Chemical Solution Feeders	
20	330	Dist. Reservoirs & Standpipe	(61,499)
21	330.1	Storage tanks	
22	330.2	Pressure Tanks	
23	331	Trans. and Dist. Mains	
24	333	Services	
25	334	Meters	
26	335	Hydrants	
27	336	Backflow Prevention Devices	
28	339	Other Plant and Misc. Equip.	
29	340	Office Furniture and Fixtures	
30	340.1	Computers and Software	
31	341	Transportation Equipment	
32	342	Stores Equipment	
33	343	Tools and Work Equipment	
34	344	Laboratory Equipment	
35	345	Power Operated Equipment	
36	346	Communications Equipment	
37	347	Miscellaneous Equipment	
38	348	Other Tangible Plant	
39		1998 ACC Plant Adjustment	
40		TOTALS	\$ (92,956)
41			
42			
43	<u>SUPPORTING SCHEDULE</u>		
44	B-2, page 3.2		
45	B-2, pages 3.4 to 3.16		

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment Number 2-C

Exhibit
Schedule B-2
Page 4.3
Witness: Bourassa

Line

No.	Adjustments to Reconcile to Reconstructed A/D Balance					
		Direct		Rebuttal	Rebuttal	
		Adjusted		Adjusted	Plant	
Acct.		Original	Rebuttal	Original	Per	
<u>No.</u>	<u>Description</u>	<u>Cost</u>	<u>Adjustments</u>	<u>Cost</u>	<u>Reconstruction</u>	<u>Difference</u>
301	Organization Cost	-	-	-	-	-
302	Franchise Cost	-	-	-	-	-
303	Land and Land Rights	-	-	-	-	-
304	Structures and Improvements	88,696	(1,978)	86,718	86,062	(656)
305	Collecting and Impounding Res.	-	-	-	-	-
306	Lake River and Other Intakes	-	-	-	-	-
307	Wells and Springs	352,116	-	352,116	351,804	(312)
308	Infiltration Galleries and Tunnels	-	-	-	-	-
309	Supply Mains	31	-	31	30	(1)
310	Power Generation Equipment	-	-	-	-	-
311	Electric Pumping Equipment	554,754	(29,247)	525,507	519,000	(6,507)
320	Water Treatment Equipment	-	-	-	-	-
320.1	Water Treatment Plant	-	-	-	-	-
320.2	Chemical Solution Feeders	-	-	-	-	-
330	Dist. Reservoirs & Standpipe	232,569	(59,704)	172,865	189,065	16,200
330.1	Storage tanks	-	-	-	-	-
330.2	Pressure Tanks	-	-	-	-	-
331	Trans. and Dist. Mains	2,506,255	-	2,506,255	2,502,370	(3,885)
333	Services	9,718	-	9,718	9,715	(3)
334	Meters	(11,187)	-	(11,187)	(11,443)	(256)
335	Hydrants	73,245	-	73,245	73,108	(137)
336	Backflow Prevention Devices	(379)	-	(379)	(381)	(2)
339	Other Plant and Misc. Equip.	3,728	-	3,728	3,726	(2)
340	Office Furniture and Fixtures	14,089	(6,540)	7,548	(19,940)	(27,488)
340.1	Computers and Software	11,025	-	11,025	11,021	(4)
341	Transportation Equipment	32,357	-	32,357	32,342	(15)
342	Stores Equipment	-	-	-	-	-
343	Tools and Work Equipment	2,404	-	2,404	2,399	(4)
344	Laboratory Equipment	-	-	-	-	-
345	Power Operated Equipment	-	-	-	-	-
346	Communications Equipment	-	-	-	-	-
347	Miscellaneous Equipment	2,150	-	2,150	2,148	(1)
348	Other Tangible Plant	-	-	-	-	-
	1998 ACC Plant Adjustment	(149,395)	-	(149,395)	(149,395)	-
	TOTALS	\$ 3,722,176	\$ (97,470)	\$ 3,624,706	\$ 3,601,631	\$ (23,075)

41

42

SUPPORTING SCHEDULE

44 B-2, pages 4.1 and 4.2

45 B-2, pages 3.4 to 3.16

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment 3

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization

Line

No.

1				
2				
3			Gross	Accumulated
4			<u>CIAC</u>	<u>Amortization</u>
5	Computed balance at 12/31/2011	\$ 3,299,762		\$ 603,756
6	Less: Unexpended HUF's	<u>(369,535)</u>		
7	Adjusted CIAC Balance		\$ 2,930,228	
8				
9	Adjusted balance at 12/31/2011		<u>\$ 2,930,228</u>	<u>\$ 605,832</u>
10				
11	Increase (decrease)		\$ -	\$ (2,076)
12				
13				
14	Adjustment to CIAC/AA CIAC		<u>\$ -</u>	<u>\$ 2,076</u>
15	Label		<u>3a</u>	<u>3b</u>
16				
17				
18				
19				
20				
21	<u>SUPPORTING SCHEDULES</u>			
22	E-1			
23	B-2, page 5.1			
24				
25				
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42				

Line No.		1999		2000		2001		2002		2003		2004	
		Balance 12/31/1998	Additions	Balance 12/31/2000	Additions	Balance 12/31/2001	Additions	Balance 12/31/2002	Additions	Balance 12/31/2003	Additions	Balance 12/31/2004	Additions
1	Decision 62450												
2	Balance 12/31/1998												
3													
4	CIAC	116,204	475,890	23,473	499,363	185,874	685,237	242,829	928,066	62,830	990,896	293,831	1,284,727
5	Less: Unexpended HUF's	(32,646)	(48,690)	(48,690)	(59,190)	(59,190)	(109,590)	(109,590)	(160,518)	(160,518)	(377,893)	(377,893)	(377,893)
6	Amortizable Balance	443,244	443,244	443,244	443,244	443,244	443,244	443,244	443,244	443,244	443,244	443,244	443,244
7													
8	Amortization Decision												
9													
10	Amortization Rate		2.39%		2.53%		2.02%		2.01%		2.20%		2.03%
11	Amortization (1/2 yr convention)		10,594		11,415		12,522		16,462		18,273		18,440
12	Accumulated Amortization		187,275		198,691		211,312		227,774		246,047		264,488
13													
14	Net CIAC	116,204	288,615	23,473	300,672	185,874	473,924	242,829	700,292	62,830	744,849	293,831	1,020,240
15													
16													
17													
18													
19													
20													
21													
22													
23	CIAC	488,618	1,773,345	90,156	1,863,501	100,722	1,964,223	537,706	2,501,929	212,688	2,714,617	179,144	2,893,761
24	Less: Unexpended HUF's	(476,588)	(476,588)	(246,286)	(246,286)	(216,884)	(216,884)	(241,597)	(241,597)	(282,001)	(282,001)	(322,405)	(322,405)
25	Amortizable Balance	1,296,777	1,296,777	1,617,215	1,617,215	1,747,338	1,747,338	2,260,333	2,260,333	2,432,617	2,432,617	2,571,357	2,571,357
26													
27	Amortization Rate		2.12%		2.25%		2.15%		2.32%		2.33%		2.34%
28	Amortization (1/2 yr convention)		27,437		36,462		37,616		52,398		56,787		60,074
29	Accumulated Amortization		291,925		328,387		366,003		418,401		475,188		535,262
30													
31	Net CIAC	488,618	1,481,421	90,156	1,535,114	100,722	1,598,220	537,706	2,083,528	212,688	2,239,429	179,144	2,358,499
32													
33													
34													
35													
36													
37													
38													
39													
40	CIAC	406,001	3,298,762										
41	Less: Unexpended HUF's	(369,535)	(369,535)										
42	Amortizable Balance	2,930,228	2,930,228										
43													
44	Amortization Rate		2.34%										
45	Amortization (1/2 yr convention)		68,493										
46	Accumulated Amortization		603,756										
47													
48	Net CIAC	406,001	2,696,007										
49													
50													

2011	
Balance 12/31/2011	
Additions	
406,001	3,298,762
(369,535)	(369,535)
2,930,228	2,930,228
Amortization Rate	2.34%
Amortization (1/2 yr convention)	68,493
Accumulated Amortization	603,756
Net CIAC	2,696,007

Vail Water Company
Test Year Ended December 31, 2011
Original Cost Rate Base Proforma Adjustments
Adjustment 4

Exhibit
Rebuttal Schedule B-2
Page 5
Witness: Bourassa

Deferred CAP Charges

Line
No.

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Deferred CAP Charges per Rebuttal	\$ 1,081,072
Deferred CAP Charges per Direct	<u>1,104,206</u>
Increase (decrease) in Deferred CAP Charges	\$ (23,134)

Adjustment to Deferred CAP Charges	<u>\$ (23,134)</u>
------------------------------------	--------------------

SUPPORTING SCHEDULES

Staff Schedule JMM-8
Testimony

Vail Water Company
Test Year Ended December 31, 2011
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	102,794
3	Pumping Power (1/24 of Pumping Power)		5,685
4	Purchased Water (1/24 of Purchased Water)		8,326
5	Prepaid Expenses		
6			
7			
8			
9	Total Working Capital Allowance	\$	116,805
10			
11			
12	Working Capital Requested	\$	-
13			
14			
15			
16			
17		<u>Adjusted Test Year</u>	
18	Total Operating Expense	\$	1,939,628
19	Less:		
20	Income Tax	\$	112,385
21	Property Tax		103,681
22	Depreciation		564,948
23	Purchased Water		199,817
24	Pumping Power		136,444
25	Allowable Expenses	\$	822,354
26	1/8 of allowable expenses	\$	102,794
27			

28
29 SUPPORTING SCHEDULES:
30 C-1

RECAP SCHEDULES:
B-1

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Vail Water Company
Test Year Ended December 31, 2011
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 1
Witness: Bourassa

Line No.		Test Year Adjusted Results	Adjustment	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 2,120,110	\$ -	\$ 2,120,110	\$ (78,606)	\$ 2,041,504
3	Unmetered Water Revenues	-	-	-	-	-
4	Other Water Revenues	214,637	-	214,637	-	214,637
5		<u>\$ 2,334,747</u>	<u>\$ -</u>	<u>\$ 2,334,747</u>	<u>\$ (78,606)</u>	<u>\$ 2,256,141</u>
6	Operating Expenses					
7	Salaries and Wages	\$ 276,984	-	\$ 276,984	-	\$ 276,984
	Employee Benefits	12,757	-	12,757	-	12,757
8	Purchased Water	199,817	-	199,817	-	199,817
9	Purchased Power	218,584	(82,140)	136,444	-	136,444
10	Chemicals	1,732	-	1,732	-	1,732
11	Materials and Supplies	14,372	-	14,372	-	14,372
12	Repairs and Maintenance	28,876	-	28,876	-	28,876
13	Office Supplies and Expense	73,301	-	73,301	-	73,301
14	Contractual Services - Engineering	6,270	-	6,270	-	6,270
15	Contractual Services - Accounting	10,473	-	10,473	-	10,473
16	Contractual Services - Legal	12,933	-	12,933	-	12,933
17	Contractual Services - Mgmt Fees	211,138	-	211,138	-	211,138
18	Contractual Services - Other	15,976	-	15,976	-	15,976
19	Contractual Services - Water Testing	3,906	-	3,906	-	3,906
20	Rents - Building/Real Property	7,920	-	7,920	-	7,920
21	Rents - Equipment	8,314	-	8,314	-	8,314
22	Transportation Expenses	33,154	-	33,154	-	33,154
23	Insurance - Vehicle	5,111	-	5,111	-	5,111
24	Insurance - General Liability	32,130	-	32,130	-	32,130
25	Insurance - Worker's Comp	3,111	-	3,111	-	3,111
26	Reg. Comm. Exp.	11,946	-	11,946	-	11,946
27	Reg. Comm. Exp. - Rate Case	30,000	-	30,000	-	30,000
28	Bad Debt Expense	6,856	-	6,856	-	6,856
29	Miscellaneous Expense	11,424	(1,311)	10,113	-	10,113
30	Depreciation Expense	570,649	(5,701)	564,948	-	564,948
31	Taxes Other Than Income	-	-	-	-	-
32	Property Taxes	103,681	(0)	103,681	(1,169)	102,511
33	Income Tax	106,244	6,141	112,385	(17,148)	95,237
34	Interest on Meter Deposits	4,981	-	4,981	-	4,981
35	Total Operating Expenses	<u>\$ 2,022,639</u>	<u>\$ (83,011)</u>	<u>\$ 1,939,628</u>	<u>\$ (18,317)</u>	<u>\$ 1,921,311</u>
36	Operating Income	<u>\$ 312,107</u>	<u>\$ 83,011</u>	<u>\$ 395,119</u>	<u>\$ (60,289)</u>	<u>\$ 334,830</u>
37	Other Income (Expense)					
38	Interest Income	33,771	-	33,771	-	33,771
39	Other income	6,090	-	6,090	-	6,090
40	Interest Expense	-	-	-	-	-
41	Other Expense	-	-	-	-	-
42	Gain (loss) on Disposal of Equip	(10,496)	-	(10,496)	-	(10,496)
43	Total Other Income (Expense)	<u>\$ 29,364</u>	<u>\$ -</u>	<u>\$ 29,364</u>	<u>\$ -</u>	<u>\$ 29,364</u>
44	Net Profit (Loss)	<u><u>\$ 341,472</u></u>	<u><u>\$ 83,011</u></u>	<u><u>\$ 424,483</u></u>	<u><u>\$ (60,289)</u></u>	<u><u>\$ 364,194</u></u>

SUPPORTING SCHEDULES:
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RECAP SCHEDULES:
A-1

Vail Water Company

Test Year Ended December 31, 2011
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.1
Witness: Bourassa

Line No.	1	2	3	4	5	6
	Depreciation	Property Taxes	Mgmt Fees	Water Testing Expense	Misc. Expense	Intentionally Left Blank
Revenues						
1	Test Year Adjusted Results					
2	\$ 2,120,110					
3	214,637					
4	\$ 2,334,747	\$ -	\$ -	\$ -	\$ -	\$ -
5						
Operating Expenses						
6						
7	\$ 276,984					
8	12,757					
9	199,817					
10	218,584		(91,901)	9,761		
11	1,732					
12	14,372					
13	28,876					
14	73,301					
15	6,270					
16	10,473					
17	12,933					
18	211,138					
19	15,976					
20	3,906					
21	7,920					
22	8,314					
23	33,154					
24	5,111					
25	32,130					
26	3,111					
27	11,946					
28	30,000					
29	6,856					
30	11,424				(1,311)	
31	570,649	(5,701)				
32	-					
33	103,681					
34	106,244	(0)				
35	4,981					
36	\$ 2,022,639	\$ (5,701)	\$ (91,901)	\$ 9,761	\$ (1,311)	\$ -
37	\$ 312,107	\$ 5,701	\$ 91,901	\$ (9,761)	\$ 1,311	\$ -
38						
39	33,771					
40	6,090					
41	-					
42	-					
43	(10,496)					
44	\$ 29,364	\$ -	\$ -	\$ -	\$ -	\$ -
45	\$ 341,472	\$ 5,701	\$ 91,901	\$ (9,761)	\$ 1,311	\$ -
46						
47						
48						
49						

SUPPORTING SCHEDULES:

C-2

E-2

Vail Water Company

Test Year Ended December 31, 2011
Income Statement

Exhibit
Rebuttal Schedule C-1
Page 2.2
Witness: Bourassa

Line No.		<u>7</u> Intentionally Left Blank	<u>8</u> Intentionally Left Blank	<u>9</u> Intentionally Left Blank	<u>10</u> Income tax	Rebuttal Test Year Adjusted Results	Proposed Rate Increase	Rebuttal Adjusted with Rate Increase
1	Revenues							
2	Metered Water Revenues					\$ 2,120,110	\$ (78,606)	\$ 2,041,504
3	Unmetered Water Revenues					-		-
4	Other Water Revenues					214,637		214,637
5		\$ -	\$ -	\$ -	\$ -	\$ 2,334,747	\$ (78,606)	\$ 2,256,141
6	Operating Expenses							
7	Salaries and Wages					\$ 276,984		\$ 276,984
8	Employee Benefits					12,757		12,757
9	Purchased Water					199,817		199,817
10	Purchased Power					136,444		136,444
11	Chemicals					1,732		1,732
12	Materials and Supplies					14,372		14,372
13	Repairs and Maintenance					28,876		28,876
14	Office Supplies and Expense					73,301		73,301
15	Contractual Services - Engineering					6,270		6,270
16	Contractual Services - Accounting					10,473		10,473
17	Contractual Services - Legal					12,933		12,933
18	Contractual Services - Mgmt Fees					211,138		211,138
19	Contractual Services - Other					15,976		15,976
20	Contr. Services - Water Testing					3,906		3,906
21	Rents - Building/Real Property					7,920		7,920
22	Rents - Equipment					8,314		8,314
23	Transportation Expenses					33,154		33,154
24	Insurance - Vehicle					5,111		5,111
25	Insurance - General Liability					32,130		32,130
26	Insurance - Worker's Comp					3,111		3,111
27	Reg. Comm. Exp.					11,946		11,946
28	Reg. Comm. Exp. - Rate Case					30,000		30,000
29	Bad Debt Expense					6,856		6,856
30	Miscellaneous Expense					10,113		10,113
31	Depreciation Expense					564,948		564,948
32	Taxes Other Than Income					-		-
33	Property Taxes					103,681	(1,169)	102,511
34	Income Tax				6,141	112,385	(17,148)	95,237
35	Interest on Customer Sec. Dep.					4,981		4,981
36	Total Operating Expenses	\$ -	\$ -	\$ -	\$ 6,141	\$ 1,939,628	\$ (18,317)	\$ 1,921,311
37	Operating Income	\$ -	\$ -	\$ -	\$ (6,141)	\$ 395,119	\$ (60,289)	\$ 334,830
38	Other Income (Expense)							
39	Interest Income					33,771		33,771
40	Other Income					6,090		6,090
41	Interest Expense					-		-
42	Other Expense					-		-
43	Gain (loss) on Disposal of Equip					(10,496)		(10,496)
44	Total Other Income (Expense)	\$ -	\$ -	\$ -	\$ -	\$ 29,364	\$ -	\$ 29,364
45	Net Profit (Loss)	\$ -	\$ -	\$ -	\$ (6,141)	\$ 424,483	\$ (60,289)	\$ 364,194

RECAP SCHEDULES:

C-1, page 1

SUPPORTING SCHEDULES:

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Vail Water Company
Test Year Ended December 31, 2011
Adjustments to Revenues and Expenses

Exhibit
Rebuttal Schedule C-2
Page 1
Witness: Bourassa

Line No.		<u>Adjustments to Revenues and Expenses</u>					<u>Subtotal</u>
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>
		Depreciation	Property	Mgmt	Water	Misc.	Intentionally
		<u>Expense</u>	<u>Taxes</u>	<u>Fees</u>	<u>Testing</u>	<u>Expense</u>	<u>Left</u>
					<u>Expense</u>		<u>Blank</u>
4	Revenues						-
5							-
6	Expenses	(5,701)	(0)	(91,901)	9,761	(1,311)	
7							
8	Operating						
9	Income	5,701	0	91,901	(9,761)	1,311	-
10							
11	Interest						
12	Expense						-
13	Other						
14	Income /						-
15	Expense						
16							
17	Net Income	5,701	0	91,901	(9,761)	1,311	-
18							
19							
20							
21		<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>
22		Intentionally	Intentionally	Intentionally			
23		Left	Left	Left			
24		<u>Blank</u>	<u>Blank</u>	<u>Blank</u>	<u>Income tax</u>		
25	Revenues						-
26							
27	Expenses	-	-	-	6,141		(83,011)
28							
29	Operating						
30	Income	-	-	-	(6,141)	-	-
31							
32	Interest						
33	Expense		-				-
34	Other						
35	Income /		-				-
36	Expense						
37							
38	Net Income	-	-	-	(6,141)	-	-
39							

Vail Water Company
Test Year Ended December 31, 2011
Adjustments to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

Depreciation Expense

Line

Line No.	Acct. No.	Description	Non-Depreciable or Fully Depreciated Plant		Proposed Rates	Rebuttal Depreciation Expense
			Adjusted Original Cost	Adjusted Original Cost		
1						
2						
3						
4						
5	301	Organization Cost	-	-	0.00%	-
6	302	Franchise Cost	-	-	0.00%	-
7	303	Land and Land Rights	17,750	17,750	0.00%	-
8	304	Structures and Improvements	397,350	397,350	3.33%	13,232
9	305	Collecting and Impounding Res.	-	-	2.50%	-
10	306	Lake River and Other Intakes	-	-	2.50%	-
11	307	Wells and Springs	1,126,979	1,126,979	3.33%	37,528
12	308	Infiltration Galleries and Tunnels	-	-	6.67%	-
13	309	Supply Mains	2,995	2,995	2.00%	60
14	310	Power Generation Equipment	-	-	5.00%	-
15	311	Electric Pumping Equipment	1,525,469	1,525,469	12.50%	190,684
16	320	Water Treatment Equipment	-	-	3.33%	-
17	320.1	Water Treatment Plant	-	-	3.33%	-
18	320.2	Chemical Solution Feeders	-	-	20.00%	-
19	330	Dist. Reservoirs & Standpipe	1,585,212	1,585,212	2.22%	35,192
20	330.1	Storage tanks	-	-	2.22%	-
21	330.2	Pressure Tanks	-	-	5.00%	-
22	331	Trans. and Dist. Mains	14,023,034	14,023,034	2.00%	280,461
23	333	Services	12,451	12,451	3.33%	415
24	334	Meters	923,082	923,082	8.33%	76,893
25	335	Hydrants	492,908	492,908	2.00%	9,858
26	336	Backflow Prevention Devices	7,901	7,901	6.67%	527
27	339	Other Plant and Misc. Equip.	6,553	6,553	6.67%	437
28	340	Office Furniture and Fixtures	2,203	2,203	6.67%	147
29	340.1	Computers and Software	15,621	15,621	20.00%	3,124
30	341	Transportation Equipment	54,806	54,806	20.00%	10,961
31	342	Stores Equipment	-	-	4.00%	-
32	343	Tools and Work Equipment	15,645	15,645	5.00%	782
33	344	Laboratory Equipment	-	-	10.00%	-
34	345	Power Operated Equipment	-	-	5.00%	-
35	346	Communications Equipment	-	-	10.00%	-
36	347	Miscellaneous Equipment	5,190	5,190	10.00%	519
37	348	Other Tangible Plant	(149,395)	149,395	2.64%	-
38		TOTALS	\$ 20,065,753	\$ 149,395	\$ 20,215,148	\$ 660,819
39						
40						
41		Less: Amortization of Contributions		Gross CIAC \$ 2,930,228	Amort. Rate 3.2718%	\$ (95,871)
42		Total Depreciation Expense				\$ 564,948
43						
44		Adjusted Test Year Depreciation Expense				570,649
45						
46		Increase (decrease) in Depreciation Expense				(5,701)
47						
48		Adjustment to Revenues and/or Expenses				\$ (5,701)
49						
50		<u>SUPPORTING SCHEDULE</u>				
51		B-2, page 3				

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Property Taxes

Line No.	DESCRIPTION	Test Year as adjusted	Company Recommended
1	Company Adjusted Test Year Revenues	\$ 2,334,747	\$ 2,334,747
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	4,669,494	4,669,494
4	Company Recommended Revenue	2,334,747	2,256,141
5	Subtotal (Line 4 + Line 5)	7,004,241	6,925,635
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	2,334,747	2,308,545
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	4,669,494	4,617,090
10	Plus: 10% of CWIP - 2010 ¹	-	-
11	Less: Net Book Value of Licensed Vehicles	22,464	22,464
12	Full Cash Value (Line 9 + Line 10 - Line 11)	4,647,029	4,594,626
13	Assessment Ratio	20.0%	20.0%
14	Assessment Value (Line 12 * Line 13)	929,406	918,925
15	Composite Property Tax Rate - Obtained from ADOR	11.1556%	11.1556%
16	Test Year Adjusted Property Tax Expense (Line 14 * Line 15)	\$ 103,681	\$ 102,511
17	Tax on Parcels	-	-
18	Total Property Taxes (Line 16 + Line 17)	\$ 103,681	
19	Test Year Property Taxes	\$ 103,681	
20	Adjustment to Test Year Property Taxes (Line 18 - Line 19)	<u>\$ (0)</u>	
21			
22	Property Tax on Company Recommended Revenue (Line 16 + Line 17)		\$ 102,511
23	Company Test Year Adjusted Property Tax Expense (Line 18)		\$ 103,681
24	Increase in Property Tax Due to Increase in Revenue Requirement		<u>\$ (1,169)</u>
25			
26	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ (1,169)
27	Increase in Revenue Requirement		\$ (78,606)
28	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 27)		1.48741%
29			
30			
31	¹ Intentionally excluded test year CWP.		
32			
33			
34			
35			
36			
37			
38			
39			
40			

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

Contractual Services - Management Fees

Line
No.

1		
2	Number of test year billings	45,819
3	Additional billings from revenue annualization	<u>585</u>
4		
5	Total adjusted test year number of billings	46,404
6		
7		
8	Revised Cost per bill	\$ 2.73
9		
10	Total Cost	\$ 126,683
11		
12	Direct adjusted management fees	<u>\$ 218,584</u>
13		
14	Increase (decrease) in Contractual Services - Management Fees	<u>\$ (91,901)</u>
15		
16		
17	Adjustment to Revenue and/or Expense	<u><u>\$ (91,901)</u></u>
18		
19	<u>REFERENCE</u>	
20	Work papers	

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
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Witness: Bourassa

Water Testing Expense

Line
No.

1

2

3

4 Increase (decrease) in water testing expense

\$ 9,761

5

6

7

8 Total increase(decrease) in water testing expense

\$ 9,761

9

10

11 Adjustment to Revenue and/or Expense

\$ 9,761

12

13 SUPPORTING SCHEDULES

14 Staff Adjustment #2

15 Testimony

16

17

18

19

20

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Rebuttal Schedule C-2
Page 6
Witness: Bourassa

Miscellaneous Expense

Line
No.

1

2

3

4 Increase (decrease) in miscellaneous expense \$ (1,311)

5

6

7

8 Total increase(decrease) in miscellaneous expense \$ (1,311)

9

10

11 Adjustment to Revenue and/or Expense \$ (1,311)

12

13 SUPPORTING SCHEDULES

14 Staff Adjustment #3

15 Testimony

16

17

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Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Rebuttal Schedule C-2
Page 7
Witness: Bourassa

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Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Rebuttal Schedule C-2
Page 8
Witness: Bourassa

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Vail Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 8

Exhibit
Rebuttal Schedule C-2
Page 9
Witness: Bourassa

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Vail Water Company
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Rebuttal Schedule C-2
Page 10
Witness: Bourassa

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Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

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Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Interest Synchronization

Line
No.

1			
2			
3			
4	Fair Value Rate Base	\$ 3,315,151	
5	Weighted Cost of Debt	0.00%	
6	Interest Expense	\$ -	
7			
8	Test Year Interest Expense	\$ -	
9			
10	Increase (decrease) in Interest Expense	-	
11			
12			
13			
14	Adjustment to Revenue and/or Expense	\$ -	
15			
16			

Weighted Cost of Debt Computation

	<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Weighted Cost</u>
20 Debt	\$ -	0.00%	0.00%	0.00%
21 Equity	\$ 7,270,669	100.00%	10.10%	10.10%
22 Total	\$ 7,270,669	100.00%		10.10%
23				
24				
25				
26				
27				
28				
29				
30				

Vail Water Company
Test Year Ended December 31, 2011
Adjustment to Revenues and/or Expenses
Adjustment Number 10

Exhibit
Rebuttal Schedule C-2
Page 11
Witness: Bourassa

Line

No.

1	<u>Income Tax Computation</u>		
2			
3			
4		Test Year	Adjusted
5		Adjusted	with Rate
6		Results	Increase
6	Revenue	\$ 2,334,747	\$ 2,256,141
	Operating Expenses Excluding Income Taxes	1,827,243	1,826,074
	Synchronized Interest	-	-
7	Income Before Taxes	\$ 507,504	\$ 430,067
8			
9	Arizona Income Before Taxes	\$ 507,504	\$ 430,067
10			
11	Less: Effective Arizona Income Tax	\$ 15,426	\$ 13,072
12	Rate = 3.0395% ¹		
13	Arizona Taxable Income	\$ 492,078	\$ 416,995
14			
15	Arizona Income Taxes	\$ 15,426	\$ 13,072
16			
17	Federal Income Before Taxes	\$ 507,504	\$ 430,067
18			
19	Less Arizona Income Taxes	\$ 15,426	\$ 13,072
20			
21	Federal Taxable Income	\$ 492,078	\$ 416,995
22			
23			
24			
25	FEDERAL INCOME TAXES:		
26	Effective Federal Tax Rate = 19.7041% ¹	\$ 96,960	\$ 82,165
27			
28			
29			
30			
31			
32	Federal Income Taxes	\$ 96,960	\$ 82,165
33			
34			
35	Total Income Tax	\$ 112,385	\$ 95,237
36			
37	Overall Tax Rate	22.14%	22.14%
38			
39	Income Tax	\$ 112,385	\$ 95,237
40	Test Year Income tax Expense	106,244	112,385
41	Adjustment to Income Tax Expense	\$ 6,141	\$ (17,148)
42			
43			

44 ¹ See work papers/testimony

Vail Water Company
Test Year Ended December 31, 2011
Computation of Gross Revenue Conversion Factor

Exhibit
Rebuttal Schedule C-3
Page 1
Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Combined Federal and State Effective Income Tax Rate	22.145%
2		
3	Property Taxes	<u>1.158%</u>
4		
5		
6	Total Tax Percentage	23.303%
7		
8	Operating Income % = 100% - Tax Percentage	76.697%
9		
10		
11		
12		
13	<u>1</u> = Gross Revenue Conversion Factor	
14	Operating Income %	1.3038
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
26	C-3, page 2	A-1
27		
28		
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GROSS REVENUE CONVERSION FACTOR

Line No.	Description	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Gross Revenue Conversion Factor:</u>							
1	Revenue	100.0000%					
2	Uncollectible Factor (Line 11)	0.0000%					
3	Revenues (L1 - L2)	100.0000%					
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	23.3027%					
5	Subtotal (L3 - L4)	76.6973%					
6	Revenue Conversion Factor (L1 / L5)	1.303827					
<u>Calculation of Uncollectible Factor:</u>							
7	Unity	100.0000%					
8	Combined Federal and State Tax Rate (Line 17)	22.1447%					
9	One Minus Combined Income Tax Rate (L7 - L8)	77.8553%					
10	Uncollectible Rate	0.0000%					
11	Uncollectible Factor (L9 * L10)		0.0000%				
<u>Calculation of Effective Tax Rate:</u>							
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%					
13	Arizona State Income Tax Rate	3.0395%					
14	Federal Taxable Income (L12 - L13)	96.9605%					
15	Applicable Federal Income Tax Rate (Line 53)	19.7041%					
16	Effective Federal Income Tax Rate (L14 x L15)	19.1052%					
17	Combined Federal and State Income Tax Rate (L13 + L16)		22.1447%				
<u>Calculation of Effective Property Tax Factor:</u>							
18	Unity	100.0000%					
19	Combined Federal and State Income Tax Rate (L17)	22.1447%					
20	One Minus Combined Income Tax Rate (L18-L19)	77.8553%					
21	Property Tax Factor	1.4874%					
22	Effective Property Tax Factor (L20*L21)		1.1580%				
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			23.3027%			
24	Required Operating Income	\$ 334,830					
25	Adjusted Test Year Operating Income (Loss)	\$ 395,119					
26	Required Increase in Operating Income (L24 - L25)		\$ (60,288)				
27	Income Taxes on Recommended Revenue (Col. (E), L52)	\$ 95,237					
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 112,385					
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ (17,148)				
30	Recommended Revenue Requirement	\$ 2,256,141					
31	Uncollectible Rate (Line 10)	0.0000%					
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	\$ -					
33	Adjusted Test Year Uncollectible Expense	\$ -					
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -				
35	Property Tax with Recommended Revenue	\$ 102,511					
36	Property Tax on Test Year Revenue	\$ 103,681					
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ (1,169)				
38	Total Required Increase in Revenue (L26 + L29 + L37)		\$ (78,606)				

	(A)	(B)	(C)	(D)	(E)	(F)
<u>Calculation of Income Tax:</u>						
39	Revenue	\$ 2,334,747	\$ 2,334,747	\$ 2,256,141	\$ 2,256,141	
40	Operating Expenses Excluding Income Taxes	\$ 1,827,243	\$ 1,827,243	\$ 1,826,074	\$ 1,826,074	
41	Synchronized Interest (L58)	\$ -	\$ -	\$ -	\$ -	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 507,504	\$ 507,504	\$ 430,068	\$ 430,068	\$ -
43	Arizona State Effective Income Tax Rate (see work papers)	3.0395%	3.0395%	3.0395%	3.0395%	3.0395%
44	Arizona Income Tax (L42 x L43)	\$ 15,426	\$ 15,426	\$ 13,072	\$ 13,072	\$ -
45	Federal Taxable Income (L42 - L44)	\$ 492,078	\$ 492,078	\$ 416,996	\$ 416,996	\$ -
46	Effective Tax Rate (see work papers)	19.7041%	19.7041%	19.7041%	19.7041%	
47	Federal Income Tax	\$ 96,960	\$ 96,960	\$ 82,165	\$ 82,165	
48		\$ -	\$ -	\$ -	\$ -	
49		\$ -	\$ -	\$ -	\$ -	
50		\$ -	\$ -	\$ -	\$ -	
51	Total Federal Income Tax	\$ 96,960	\$ 96,960	\$ 82,165	\$ 82,165	\$ -
52	Combined Federal and State Income Tax (L44 + L47)	\$ 112,385	\$ 112,385	\$ 95,237	\$ 95,237	\$ -
53						
54	WATER Applicable Federal Income Tax Rate [Col. (E), L51 - Col. (B), L51] / [Col. (E), L45 - Col. (B), L45]					19.7041%
55						

<u>Calculation of Interest Synchronization:</u>			
56	Rate Base	\$ 3,315,151	\$ -
57	Weighted Average Cost of Debt	0.0000%	0.0000%
58	Synchronized Interest (L56 X L57)	\$ -	\$ -

Vail Water Company
Revenue Summary
Test Year Ended December 31, 2011

Exhibit
Rebuttal Schedule H-1
Page 1
Witness: Bourassa

Line No.	Meter Size	Classification	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Percent of Present Water Revenues	Percent of Proposed Water Revenues
1	5/8x3/4 Inch	Residential	\$ 1,728,603	\$ 1,677,344	\$ (51,259)	-2.97%	74.04%	74.35%
2	3/4 Inch	Residential	55,737	53,999	(1,738)	-3.12%	2.39%	2.39%
3	1 Inch	Residential	2,132	1,975	(157)	-7.38%	0.09%	0.09%
4								
5	5/8x3/4 Inch	Commercial	3,471	3,773	302	8.71%	0.15%	0.17%
6	3/4 Inch	Commercial	1,804	1,841	37	2.07%	0.08%	0.08%
7	1 Inch	Commercial	4,172	4,035	(137)	-3.28%	0.18%	0.18%
8	1/12 Inch	Commercial	17,977	15,346	(2,631)	-14.64%	0.77%	0.68%
9	2 Inch	Commercial	67,893	57,822	(10,071)	-14.83%	2.91%	2.56%
10								
11	5/8x3/4 Inch	Irrigation	2,073	2,160	87	4.18%	0.09%	0.10%
12	3/4 Inch	Irrigation	5,089	5,280	191	3.75%	0.22%	0.23%
13	1 Inch	Irrigation	17,540	16,901	(638)	-3.64%	0.75%	0.75%
14	1/12 Inch	Irrigation	17,246	16,217	(1,029)	-5.96%	0.74%	0.72%
15	2 Inch	Irrigation	113,577	115,693	2,116	1.86%	4.86%	5.13%
16								
17	5/8x3/4 Inch	Standpipe	12,909	9,095	(3,813)	-29.54%	0.55%	0.40%
18	1 Inch	Standpipe	2,256	1,991	(265)	-11.74%	0.10%	0.09%
19	3 Inch	Construction	37,004	27,561	(9,442)	-25.52%	1.58%	1.22%
20								
21	Subtotals of Revenues		\$ 2,089,481	\$ 2,011,034	\$ (78,447)	-3.75%	89.50%	89.14%
22	Revenue Annualizations:							
23	5/8x3/4 Inch	Residential	\$ 21,450	\$ 20,276	\$ (1,174)	-5.47%	0.92%	0.90%
24	3/4 Inch	Residential	1,715	1,622	(93)	-5.45%	0.07%	0.07%
25	1 Inch	Residential	-	-	-	0.00%	0.00%	0.00%
26								
27	5/8x3/4 Inch	Commercial	(132)	(142)	(10)	7.60%	-0.01%	-0.01%
28	3/4 Inch	Commercial	(144)	(146)	(2)	1.23%	-0.01%	-0.01%
29	1 Inch	Commercial	-	-	-	0.00%	0.00%	0.00%
30	1/12 Inch	Commercial	104	89	(16)	-14.92%	0.00%	0.00%
31	2 Inch	Commercial	3,337	2,842	(495)	-14.84%	0.14%	0.13%
32								
33	5/8x3/4 Inch	Irrigation	(78)	(79)	(0)	0.29%	0.00%	0.00%
34	3/4 Inch	Irrigation	32	33	1	2.11%	0.00%	0.00%
35	1 Inch	Irrigation	1,001	932	(69)	-6.92%	0.04%	0.04%
36	1/12 Inch	Irrigation	(1,986)	(1,803)	182	-9.19%	-0.09%	-0.08%
37	2 Inch	Irrigation	11,538	11,378	(160)	-1.39%	0.49%	0.50%
38								
39	5/8x3/4 Inch	Standpipe	213	150	(62)	-29.35%	0.01%	0.01%
40	1 Inch	Standpipe	-	-	-	0.00%	0.00%	0.00%
41	3 Inch	Construction	(7,125)	(5,458)	1,667	-23.40%	-0.31%	-0.24%
42								
43	Subtotal Revenue Annualization		29,925	29,694	(232)	-0.77%	1.28%	1.27%
44								
45	Total Revenues w/ Annualization		\$ 2,119,407	\$ 2,040,728	\$ (78,679)	-3.71%	90.78%	90.45%
46	Adjusted Misc Revenues		214,637	214,637	-	0.00%	9.19%	9.51%
47	Reconciling Amount		703	776	73	10.38%	0.03%	0.03%
48	Total Revenues		\$ 2,334,746	\$ 2,256,141	\$ (78,606)	-3.37%	100.00%	100.00%
49								
50								

Vail Water Company
Analysis of Revenue by Detailed Class
Test Year Ended December 31, 2011

Exhibit
Rebuttal Schedule H-2
Page 1
Witness: Bourassa

Line No.	Customer Classification and/or Meter Size	(a) Average Number of Customers at 12/31/2011	Average Consumption	Average Bill		Proposed Increase		Percent of Customers
				Present Rates	Proposed Rates	Dollar Amount	Percent Amount	
				\$	\$			
1	5/8x3/4 Inch Residential	3,596	6,720	40.06	37.87	(2.19)	-5.47%	96.33%
2	3/4 Inch Residential	-	8,344	54.38	51.42	(2.96)	-5.44%	0.00%
3	1 Inch Residential	3	4,681	59.22	54.85	(4.37)	-7.38%	0.08%
4								
5	5/8x3/4 Inch Commercial	6	8,274	46.28	49.90	3.63	7.84%	0.17%
6	3/4 Inch Commercial	2	10,858	64.43	63.74	(0.69)	-1.07%	0.06%
7	1 Inch Commercial	3	18,848	115.89	107.98	(7.91)	-6.83%	0.08%
8	1/12 Inch Commercial	14	4,611	107.65	91.89	(15.75)	-14.64%	0.37%
9	2 Inch Commercial	26	18,005	219.72	186.88	(32.84)	-14.95%	0.69%
10								
11	5/8x3/4 Inch Irrigation	3	10,343	54.55	53.96	(0.59)	-1.08%	0.08%
12	3/4 Inch Irrigation	11	4,462	38.85	39.11	0.26	0.68%	0.29%
13	1 Inch Irrigation	15	13,968	96.37	89.68	(6.69)	-6.94%	0.41%
14	1/12 Inch Irrigation	7	31,594	215.57	193.07	(22.50)	-10.44%	0.18%
15	2 Inch Irrigation	12	164,452	805.51	799.39	(6.12)	-0.76%	0.31%
16								
17	5/8x3/4 Inch Standpipe	31	5,522	35.27	24.85	(10.42)	-29.54%	0.82%
18	1 Inch Standpipe	1	36,876	188.00	165.94	(22.06)	-11.74%	0.03%
19	3 Inch Construction	4	139,198	840.99	626.39	(214.60)	-25.52%	0.10%
20								
21								
22								
23								
24	Totals	3,733						100.00%
25								
26	Actual Year End Number							
27	of Customers:	3,867						
28								
29								
30								
31								

Line No.	Monthly Usage Charge for: Meter Size (All Classes):	Present Rates	Proposed Rates	Change	Percent Change
1	5/8x3/4 Inch	\$ 13.18	\$ 14.92	\$ 1.74	13.20%
2	3/4 Inch	21.00	22.38	1.38	6.57%
3	1 Inch	40.50	37.30	(3.20)	-7.90%
4	1 1/2 Inch	89.20	74.60	(14.60)	-16.37%
5	2 Inch	147.70	119.36	(28.34)	-19.19%
6	3 Inch	284.20	238.72	(45.48)	-16.00%
7	4 Inch	479.20	372.99	(106.21)	-22.16%
8	6 Inch	966.70	745.99	(220.71)	-22.83%
9	WIFA Surcharge	6.92	-	(6.92)	-100.00%
10	Standpipe	by meter size	-		
11					
12	Fire Sprinkler	(a)	(a)		
13					
14					
15	Gallons In Minimum (All Classes)	-	-		
16					
17					
18					
19	<u>Commodity Rates</u>				
20					
21	5/8x3/4 Inch (all classes, including standpipe and construction)		(Per 1,000 gallons) Present Rate	Proposed Rate	
22					
23	5/8x3/4 Inch - Residential only			\$ 3.00	
24				\$ 3.75	
25				\$ 4.50	
26					
27	5/8x3/4 Inch - Commercial, Industrial, Irrigation			\$ 3.75	
28				\$ 4.50	
29					
30	3/4 Inch Meter (all classes, including standpipe and construction)		\$ 4.00		
31					
32	3/4 Inch Meter - Residential only			\$ 3.00	
33				\$ 3.75	
34				\$ 4.50	
35					
36	3/4 Inch Meter - Commercial, Industrial, Irrigation			\$ 3.00	
37				\$ 3.75	
38					
39	(a) Higher of \$5.00 per month or 1.0 percent of the monthly minimum.				
40	NT = No Tariff				

Vail Water Company
Test Year Ended December 31, 2011
Present and Proposed Rates

Exhibit
Rebuttal Schedule H-3
Witness: Bourassa
Page 2

Line No.	Commodity Rates	Block	(Per 1,000 gallons)	
			Present Rate	Proposed Rate
1		Over Minimum Gallons	\$ 4.00	
2				
3	1 Inch Meter (all classes, including standpipe and construction)	Over Minimum Gallons		
4				
5				
6	1 Inch Meter (all classes except standpipe and construction)	1 gallons to 25,000 gallons over 25,000 gallons	\$ 3.75	\$ 4.50
7				
8				
9	1.5 Inch Meter (all classes, including standpipe and construction)	Over Minimum Gallons	\$ 4.00	
10				
11	1.5 Inch Meter (all classes except standpipe and construction)	1 gallons to 50,000 gallons over 50,000 gallons	\$ 3.75	\$ 4.50
12				
13				
14	2 Inch Meter (all classes, including standpipe and construction)	Over Minimum Gallons	\$ 4.00	
15				
16	2 Inch Meter (all classes except standpipe and construction)	1 gallons to 80,000 gallons over 80,000 gallons	\$ 3.75	\$ 4.50
17				
18				
19	3 Inch Meter (all classes, including standpipe and construction)	Over Minimum Gallons	\$ 4.00	
20				
21	3 Inch Meter (all classes except standpipe and construction)	1 gallons to 160,000 gallons over 160,000 gallons	\$ 3.75	\$ 4.50
22				
23				
24	4 Inch Meter (all classes, including standpipe and construction)	Over Minimum Gallons	\$ 4.00	
25				
26	4 Inch Meter (all classes except standpipe and construction)	1 gallons to 250,000 gallons over 250,000 gallons	\$ 3.75	\$ 4.50
27				
28				
29	6 Inch Meter (all classes, including standpipe and construction)	Over Minimum Gallons	\$ 4.00	
30				
31	6 Inch Meter (all classes except standpipe and construction)	1 gallons to 500,000 gallons over 500,000 gallons	\$ 3.75	\$ 4.50
32				
33				
34				
35	Construction/Standpipe	All gallons	\$ 4.00	\$ 4.50
36				
37	CAP Recovery Surcharge (per 1,000 gallons)	All gallons	\$ 0.32	removed
38				
39	CAP Water Surcharge (per 1,000 gallons)	All gallons	NT	see testimony
40				
41	NT = No Tariff			

Vail Water Company
Present and Proposed Rates
Test Year Ended December 31, 2011

Line No.	Meter and Service Line Charges ¹	Present Service Line Charge	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge
1				\$ 400.00	\$ 445.00	\$ 305.00	\$ 750.00
2							
3				\$ 440.00	445.00	405.00	850.00
4				\$ 500.00	495.00	465.00	960.00
5				\$ 675.00	550.00	675.00	1,225.00
6					830.00	1,195.00	2,025.00
7	5/8 x 3/4 Inch			\$ 1,660.00	830.00	2,040.00	2,870.00
8	3/4 Inch			NT			
9	1 Inch			\$ 2,150.00	1,045.00	1,820.00	2,865.00
10	1 1/2 Inch			NT	1,165.00	2,604.00	3,769.00
11	2 Inch Turbo			\$ 3,135.00	1,490.00	2,820.00	4,310.00
12	2 Inch, Compound			NT	1,670.00	3,795.00	5,465.00
13	3 Inch Turbo			\$ 6,190.00	2,210.00	5,175.00	7,385.00
14	3 Inch, compound				2,330.00	7,070.00	9,400.00
15	4 Inch Turbo						
16	4 Inch, compound						
17	6 Inch Turbo						
18	6 Inch, compound						
19							
20							

¹ Proposed charges based on ACC Staff Engineering Memo dated February 21, 2008 plus \$150 additional charge for meter telemetry unit for remote meter reading.

NT = No Tariff

Other Charges:

	Present Rates	Proposed Rates
Establishment	\$ 25.00	\$ 25.00
Establishment - After Hours	\$ 50.00	Remove from tariff
Reestablishment (within 12 months)	(a)	(a)
Reestablishment (within 12 months After Hours)	(b)	Remove from tariff
Reconnection (Delinquent)	\$ 30.00	\$ 30.00
Reconnection (Delinquent), If after hours	\$ 35.00	Remove from tariff
Meter Test (if correct)	\$ 30.00	\$ 30.00
Meter Re-read (if correct)	\$ 15.00	\$ 15.00
Deposit	(c)	(c)
Deposit Interest	(c)	(c)
NSF Check	\$ 25.00	\$ 25.00
Deferred Payment, per month	1.5%	1.5%
Late Payment Fee (per month)	1.5%	1.5%
Moving Customer Meter (Customer Request)	Cost	Cost
Illegal Hook-up	(d)	(d)
Transfer Fee	\$ 25.00	\$ 25.00
After hours service charge (at customer request)	NT	\$ 50.00
Main Extension	per Rule R-14-2-406B	per Rule R-14-2-406B

(a) Number of months off the system times the monthly minimum per A.A.C. R14-2-403(D).

(b) Number of months off the system times the monthly minimum per A.A.C. R14-2-403.B

(c) Per Rule R14-2-403.B

(d) Estimated billings from their time illegal connection was made to date.

NT = No Tariff

Vail Water Company
Present and Proposed Rates
Test Year Ended December 31, 2011

Line No.		Present Charge	Proposed Charge
1	<u>Central Arizona Project Hook-up Fee¹</u>		
2			
3			
4			
5	5/8 x 3/4 Inch	\$ 1,000.00	\$ 1,000.00
6	3/4 Inch	1,500.00	1,500.00
7	1 Inch	2,500.00	2,500.00
8	1 1/2 Inch	5,000.00	5,000.00
9	2 Inch	8,000.00	8,000.00
10	3 Inch	17,500.00	17,500.00
11	4 Inch	30,000.00	30,000.00
12	6 Inch	62,500.00	62,500.00
13	8 Inch	120,000.00	120,000.00
14	10 Inch	190,000.00	190,000.00
15	12 Inch or larger	250,000.00	250,000.00
16			
17			
18			

Line No.		Present Charge	Proposed Charge
19	<u>Offsite Facilities Hook-Up Fee²</u>		
20			
21			
22			
23	5/8 x 3/4 Inch	\$ 420.00	\$ 420.00
24	3/4 Inch	504.00	504.00
25	1 Inch	840.00	840.00
26	1 1/2 Inch	1,680.00	1,680.00
27	2 Inch	2,690.00	2,690.00
28	3 Inch	5,040.00	5,040.00
29	4 Inch	8,400.00	8,400.00
30	6 Inch or larger	16,800.00	16,800.00
31			
32			

¹ Treated as revenue.
² Treated as contribution-in-aid of construction ("CIAC").

33
34
35
36
37
38
39
40

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF)
VAIL WATER COMPANY FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANT AND PROPERTY AND)
FOR AN INCREASE IN ITS RATES AND)
CHARGES BASED THEREON)

DOCKET NO. W-01651B-12-0339

**REBUTTAL TESTIMONY OF
KARA D. FESTA P.E.
ON BEHALF OF VAIL WATER COMPANY
MARCH 25, 2013**

**REBUTTAL TESTIMONY OF
KARA D. FESTA P.E.
ON BEHALF OF
VAIL WATER COMPANY
MARCH 25, 2013**

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2	I. RESPONSE TO COMMISSION STAFF REGARDING EXCESS CAPACITY	2
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INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kara D. Festa, P.E., and my business address is 4001 E. Paradise Falls Drive, Tucson, Arizona, 85712.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by WestLand Resources, Inc. (WestLand), as a civil engineer, and I am a principal of the company.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I have a Bachelors degree in Civil Engineering and Masters degree in Environmental Engineering from the University of Arizona. I have been working in the engineering field, primarily in water and wastewater planning and design, for 17 years, 14 of those years at WestLand. I am Registered Professional Engineer in Arizona and New Mexico.

Q. PLEASE DESCRIBE YOUR INVOLVEMENT WITH PREVIOUS WORK FOR VAIL WATER COMPANY.

A. I have been working on water system engineering projects with Vail Water Company (Company) since 1998, as a project engineer, project manager, and then in my capacity as a principal with WestLand. My work with Company has included water system hydraulic modeling and master planning, design for pipelines, booster stations, reservoirs, and wells, and general operational and engineering assistance. In addition, I have assisted the water company during well outages, to help with troubleshooting, selection of new well equipment, review of well videos and providing engineering recommendations.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony presents my professional opinion as to the capacity of well infrastructure and overall capacity and reliability of the Company well supplies, and whether Well No.

6 is excess capacity or would be considered necessary to meet the water demand of the Company system.

I. RESPONSE TO COMMISSION STAFF REGARDING EXCESS CAPACITY

Q. WHAT INFORMATION AND/OR RECORDS DID YOU REVIEW FOR THIS TESTIMONY?

A. I reviewed well capacity and demand information from 2011 and 2012, as well as the testimony and Staff Report prepared by Marlin Scott Jr.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE MATTERS ADDRESSED IN YOUR TESTIMONY.

A. I have concluded from my review that Well No. 6 is not excess capacity, but is a needed facility in the Vail Water Company system. The main reasons relate to the actual available flow from each well, the configuration of the water system and availability and function of the wells to serve various areas of the water system, and the demands placed on the well source system.

Q. CAN YOU FIRST EXPLAIN THE ACTUAL FLOW AVAILABLE FROM EACH WELL?

A. Yes. The Staff Report based the calculations about the water system on the recorded capacity of the wells when those facilities were placed in service, as noted in historical documentation (Page 1, Table 1). In reality, most well pumping capacity is not consistent over time, and typically the available capacity from a well will drop over time as the well pump and casing age. This occurs for a variety of reasons, the most common being the growth of deposits on the interior of the casing that reduce the available flow into the well, and wear to the moving parts of the pump due to sand or other materials running through the pump. When we review the ability of a well system to serve the demands of the current water system, we need to consider what the pumps are actually capable of

1 providing at the current time, not what the well might have been capable of producing
2 when the equipment was newly installed. Often, the well casing and pump can be
3 rehabilitated or the pumping equipment replaced to reclaim lost pumping capacity, but
4 this requires a significant investment in time and funds, and the need for well and pump
5 rehabilitation must be weighed against the costs and completed when economically
6 viable.

7 The current equipped and available capacities of each well are provided in the table
8 below:

9

<i>Well No.</i>	<i>GPM</i>
3	550
5	810
6	650
8	830/1,200*
	3,210*

10 * Well No. 8 is currently out of service. Well No. 8 was producing 830 gpm prior to the
11 planned outage. The new pump capacity is expected to be 1,200 gpm following well
12 rehabilitation and pump replacement.

13 **Q. AS AN ENGINEER REVIEWING THE CAPACITY IN THE WATER SYSTEM,**
14 **HOW DO YOU TYPICALLY DETERMINE WHAT WELL CAPACITY**
15 **SHOULD BE PROVIDED?**

16 **A.** A water company must have sufficient well capacity to meet the peak day usage, also
17 called Peak Day Demand, because the water supply source has to be able to keep up with
18 the demands of the water system during the highest demand days of the year. This
19 typically occurs during early summer. There can be a series of days of very high demand

1 where the water company is pumping at or near Peak Day Demand values for a sustained
2 period. In that situation, the wells would need to be running for sustained periods just to
3 meet system demands. And in reality, due to the variability of demand over the day and
4 available reservoir capacity to accept the well supply, the wells may not be able to run all
5 the time, even on Peak Day.

6 Because of how a water system operates, we always need to have, at a minimum, at least
7 enough well capacity to meet Peak Day Demand. Because we also never know when a
8 well outage will occur due to pumping or electrical equipment or casing issues, the
9 accepted engineering recommendation is to be able to supply Peak Day Demand with the
10 largest well out of service.

11 I would also like to point out that Peak Day Demand should not be confused with other
12 types of peaking calculations. For example, the "highest peak use" per customer
13 provided in the Staff Report (Page 5, System Analysis) is the Average Day of the Peak
14 Month of water sales, rather than the Peak Day usage of well pumping demands. Peak
15 Day Demand is generally assumed to be as much as 1.5 times higher than the Average
16 Day of the Peak Month usage. The peak usage provided in that section of the Staff
17 Report is also based on customer use, rather than well pumping, which doesn't account
18 for any lost and unaccounted for uses. The actual available well capacity should be based
19 on the Peak Daily Demand of the water system, not only customer sales, and especially
20 not customer sales on average during the highest month, which would considerably
21 underestimate the actual peak demand on the water system's well sources.

22 **Q. WHY DO THE WELL SIZING CRITERIA CONSIDER THE SITUATION WITH**
23 **THE LARGEST WELL OUT OF SERVICE?**

24 **A.** Well outages can occur at any time, especially during high demand periods when the
25 wells are being placed under significant stress, such as summer peak usage periods.

1 Because the total well capacity within a water system is not always available, we have to
2 plan for this reality in the design and operation of water systems, so that service to
3 customers is reliable.

4 **Q. WHEN PUMP OR WELL ISSUES CAUSE A WELL OUTAGE TO OCCUR,**
5 **HOW LONG COULD A WELL BE OUT OF SERVICE?**

6 **A.** It can vary from a few days to a few weeks for a mechanical or electrical failure, and
7 from a few weeks to a month or more for pump and casing inspection, rehabilitation, and
8 repairs. For example, the water company recently took Well No. 8 out of service to assess
9 the pump due to a noted issue with the equipment. The company brushed and bailed the
10 well due to deposits inside the casing which had caused reduced pumping capacity,
11 replaced the pump and sections of column, tube and shaft that were not suitable for
12 continued use, and lowered the pump setting 50 feet. The well has currently been out of
13 service for approximately six weeks, and is expected to be back in service within
14 approximately the next two weeks. Well No. 8 was taken out of service voluntarily, and
15 the water company elected to do this work before the high-use summer period, to reduce
16 the potential for a well outage during that period. It is best when well outages can be
17 scheduled at the water company's convenience, but this is not always possible due to
18 unexpected issues that occur, especially when wells and pumps are heavily used, as
19 happens in the summer months.

20 **Q. WHAT ELSE IS IMPORTANT TO UNDERSTAND ABOUT THIS WATER**
21 **SYSTEM IN REVIEWING WELL CAPACITY?**

22 **A.** On critical point in reviewing the well capacity is the actual configuration of the water
23 system, and where the wells are located. The Vail Water Company system is divided into
24 two main areas, the North Service Area and the South Service Area, divided by the
25 Southern Pacific Railroad. There is a pipeline between these two service areas, but

1 because of the location and configuration of the booster stations within the water system,
2 water can be moved from North Service Area to the South Service Area, but the water
3 system isn't configured to move water from the South Service Area to the North Service
4 Area.

5 Well No. 3 is located in the South Service Area, which means that Well No. 3 capacity
6 can only serve into the South Service Area, and isn't available to the North Service Area.
7 Well Nos. 5, 6, and 8 are in the North Service Area, and this well capacity can also be
8 transferred to the South Service Area using the I-3380 Zone Booster Station.

9 Another point of note is that the capacity of Well No. 5 serves a somewhat unusual
10 function in this water system. In most water systems, well capacity is not directly used to
11 provide fire flow to a water system. Pressure and fire flow generally come from a
12 combination of reservoirs located at a high water elevation above the water system or
13 booster stations that pressurize the water system. However, because of the configuration
14 of the Vail Water Company system, and long pipelines leading from the water system's I
15 Zone reservoirs to the subdivisions and school in the vicinity of Well No. 5, there were
16 noted and significant low pressure problems in that area prior to the installation of Well
17 No. 5. Part of the function of Well No. 5 is to operate during high demand periods to
18 help increase the pressure in that area of the water system. The controls for Well No. 5
19 are designed to respond both to the remote reservoir level for reservoir filling, and to the
20 local pressure in the area of the well. The purpose for equipping and connecting Well
21 No. 5 to the water system was not solely for source water to the system, but also to serve
22 this supplemental pressure requirement.

23 **Q. HOW IS THE WATER SYSTEM DEMAND BROKEN UP BETWEEN THE**
24 **NORTH SERVICE AREA AND THE SOUTH SERVICE AREA?**

1 A. Based on data from the water company regarding the customer breakdown between the
2 North and South Service areas, the demand of the South Service area is calculated to be
3 approximately 32 percent of the water system demand, and the demand of the North
4 Service Area is approximately 68 percent of the water system demand. The annual
5 pumping reported of 382,210,000 gallons calculates to an average daily demand (ADD)
6 of 1,047,151 gallons per day, or 727 gallons per minute (gpm). The standard engineering
7 assumption of a peaking factor of two times the Average Day Demand provides a Peak
8 Day Demand of 1,454 gpm. This would be proportioned between the South and North
9 Service Areas at a Peak Day Demand of approximately 460 and 994 gpm, respectively.

10 **Q. HOW DOES THE DEMAND COMPARE TO THE CURRENT WELL SUPPLY?**

11 A. Looking first at the South Service area, the Peak Day Demand of 460 gpm is just less
12 than the Well No. 3 capacity of 550 gpm, and Well No. 3 would be considered sufficient
13 capacity for Peak Day Demand. In addition, if Well No. 3 is out of service, water can
14 also be transferred into the South Service Area from the I-3380 Zone Booster Station,
15 which provides the required redundancy for the South Service Area.

16 In the North Service area, the Peak Day Demand is 994, and the sum of the well
17 capacities will be 2,660 gpm when Well No. 8 is brought back into service, if the well
18 rehabilitation achieves the original pumping capacity. Because the water company needs
19 to be able to serve the Peak Day Demand when the largest well is out of service, the
20 available well capacity without Well No. 8 capacity is 1,460 gpm. This is sufficient to
21 meet the Peak Day Demand.

22 **Q. IN THE NORTH SERVICE AREA, WHAT WOULD BE THE CONDITION IF**
23 **WELL NO. 6 WAS NOT PART OF THE WATER SYSTEM?**

24 A. In that case, the North Service Area would be served by only Well No. 5 and Well No. 8.
25 The Company would still need to be able to serve the water system with the largest well

1 out of service. Without Well No. 8, the available well capacity of Well No. 5 would be
2 810 gpm, which is less than the Peak Daily Demand needed for the North Service Area.
3 The purpose of Well No. 6 in the water system, therefore, is to provide adequate
4 redundancy to meet peaking demands. There is not excess well capacity in the North
5 Service Area or in the Company's water system.

6 **Q. IS THERE ANY OTHER CONSIDERATION REGARDING THE OPERATION**
7 **OF THE NORTH SERVICE AREA THAT IS IMPORTANT TO THE**
8 **DISCUSSION OF WELL CAPACITY?**

9 **A.** Yes. Much of the North Service Area constitutes a master planned community that is
10 under construction. The construction usage from 3-inch hydrant meters for grading
11 operations and dust control can be considerable, and is typically 200 to 300 gpm per
12 hydrant meter when contractor are drawing water for water truck and Klein tank filling.
13 The water company currently has five 3-inch construction meters in use in the system,
14 which is typical of the ongoing construction operations. The highest usage of the
15 construction meters is during the hottest, driest times of the year, when significant
16 grading and dust control water is required.

17 When this additional pumping demand is considered in the context of peaking usage and
18 how much higher the Peak Day Demand can be than the Average Day of the Peak Month
19 value, the need for the capacity of all three wells in the North Service Area is even
20 clearer.

21 **Q. DOES VAIL WATER COMPANY ACTUALLY USE ALL FOUR OF THE**
22 **WATER SYSTEM WELLS?**

23 **A.** Yes. **Exhibit A** shows the proportion of use from each of the water company's wells in
24 2011 and 2012.

1 **Q. COULD YOU SUMMARIZE YOUR PROFESSIONAL OPINION ABOUT THE**
2 **WELL CAPACITY OF THE COMPANY SYSTEM?**

3 **A.** I believe that the Company needs all four of the existing wells to provide adequate and
4 reliable service to the water system. Well No. 6 should not be considered excess
5 capacity, is used and useful, and is an important facility for the reliable operation of
6 Company to meet customer demands.

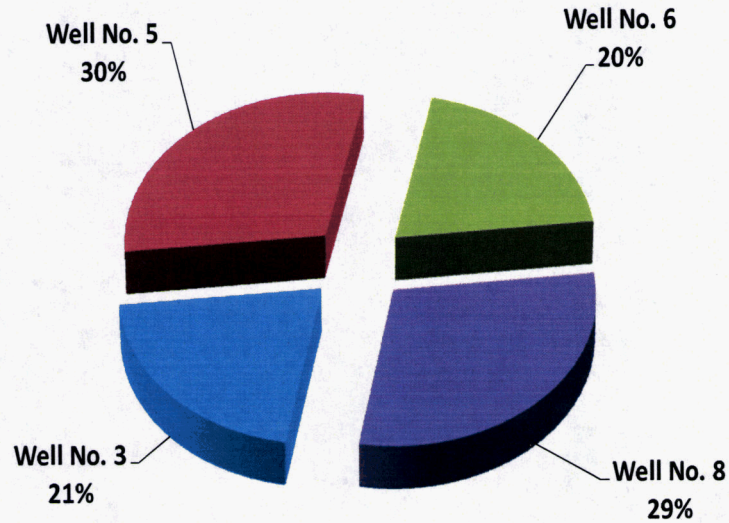
7 **II. CONCLUSION**

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

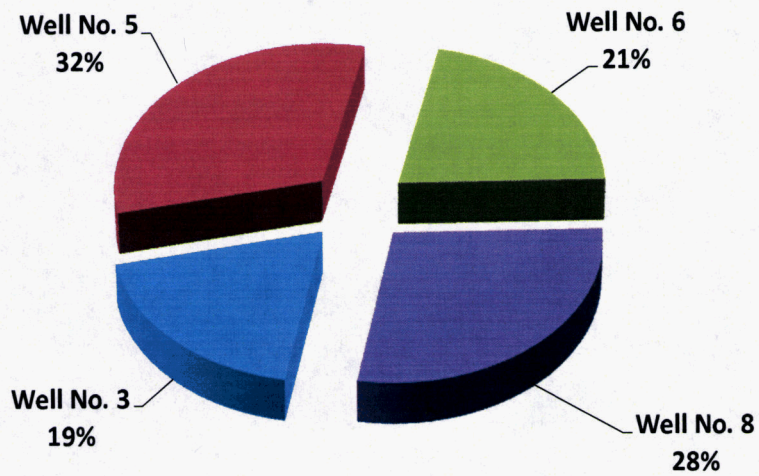
9 **A.** Yes.

EXHIBIT A

**Vail Water Company
Well Utilization in 2011
(Percent of Total Pumping)**



**Vail Water Company
Well Utilization in 2012
(Percent of Total Pumping)**



BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP, Chairman
GARY PIERCE
BRENDA BURNS
SUSAN BITTER SMITH
BOB BURNS

IN THE MATTER OF THE APPLICATION OF)
VAIL WATER COMPANY FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANT AND PROPERTY AND)
FOR AN INCREASE IN ITS RATES AND)
CHARGES BASED THEREON)

DOCKET NO. W-01651B-12-0339

**REBUTTAL TESTIMONY OF
CHRISTOPHER VOLPE
ON BEHALF OF VAIL WATER COMPANY
MARCH 25, 2013**

**REBUTTAL TESTIMONY OF
CHRISTOPHER VOLPE
ON BEHALF OF
VAIL WATER COMPANY
MARCH 25, 2013**

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INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE NUMBER.

A. My name is Christopher ("Kip") Volpe. My business address is 1010 N. Finance Center Drive, Suite 200, Tucson, AZ 85710, and my business phone number is 520-571-1958, ext. 105.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by TEM Corp., a management company that performs management services for Vail Water Company ("VWC" or the "Company") under a service contract.

Q. PLEASE DESCRIBE YOUR PRIMARY RESPONSIBILITIES FOR VAIL.

A. I am a Vice President of the Company and oversee the administration and operations of Vail.

Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE INSTANT CASE?

A. Yes, my direct testimony was submitted in support of the initial application in this docket.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of this rebuttal testimony is to respond to specific issues from Staff's Direct Testimony filed on February 25, 2013. Specifically, I will respond to Staff's proposed conditions in relation to management service and the use of TEM Corp. and will address the Company's proposed CAP surcharge. Some of these issues are also addressed in the rebuttal testimony of Mr. Tom Bourassa.

I. MANAGEMENT SERVICES

Q. WHAT HAS STAFF RECOMMENDED WITH RESPECT TO THE FEES VAIL PAYS TO TEM CORP. FOR MANAGEMENT SERVICES?

A. Staff has made several recommendations with respect to these management fees. First, Staff recommends that Vail seek competitive bids for these services from at least five vendors at least every three years.¹ Second, Staff recommends that TEM's employees track their time in units no larger than hourly and use this data in allocating Vail's share of TEM's salary expenses.² Third, Staff recommends that the Commission order Vail to provide TEM's general ledger and other accounting records as needed by Staff to verify costs included in the management fee.³

Q. WHAT IS STAFF'S REASON FOR MAKING THESE RECOMMENDATIONS?

A. Because Staff has determined that Vail and TEM Corp. are related companies (through common ownership), Staff believes that their contract for management services merits higher scrutiny than a contract between unrelated entities. Staff wants to ensure that Vail's ratepayers are not paying more than they should for TEM's management services.

Q. DO YOU BELIEVE THESE CONDITIONS ARE WARRANTED?

A. For the reasons below, they are not necessary nor warranted. More importantly, Staff accepted the Company's proposed fee. In fact, Staff accepted the Company's initial proposal of \$4.55 per customer per month even though the Company has now reduced it to \$2.73 per customer per month.

¹ JMM testimony at 20-21.

² *Id.* at 23.

³ *Id.* at 24.

1 **Q. WHY DOES VAIL USE TEM CORP. TO PROVIDE MANAGEMENT**
2 **SERVICES?**

3 **A.** TEM Corp. is the most efficient way for Vail to obtain these services. It would cost Vail
4 considerably more to hire full-time employees to perform comparable services. As
5 discussed below, there are very few third-party vendors that could provide these services
6 and they would almost certainly be more expensive than TEM Corp. In addition, TEM
7 Corp. provides a high level of expertise in water issues and is familiar with Vail's
8 operations and finances, having assisted the Company in prior rate cases.

9 **Q. IS THE FEE CHARGED BY TEM CORP. FOR THESE SERVICES**
10 **REASONABLE?**

11 **A.** Yes, it's very reasonable. Vail only has to pay for the costs incurred by TEM on Vail's
12 account and is able to share the salary expense of TEM's employees with TEM's other
13 clients. There is no evidence that the fee is unreasonable. In fact, in its testimony Staff
14 accepted the Company's original proposal of \$4.55 per customer per month. Vail later
15 discovered a formula error in the spreadsheet used to calculate the fee and is now
16 proposing the corrected amount of \$2.73 per customer per month.

17 **Q. DID THE COMPANY COOPERATE WITH STAFF IN PROVIDING SUPPORT**
18 **FOR THE AMOUNT OF THE MANAGEMENT FEE?**

19 **A.** Yes, Vail provided support for every component of TEM's fee. This included salary and
20 benefits information about TEM's employees; vendor reports showing general ledger
21 entries for all indirect costs such as rent, insurance, and travel expenses; supporting
22 documentation for all these indirect costs; and a cost allocation worksheet.

1 **Q. WHY DIDN'T THE COMPANY PROVIDE TEM'S GENERAL LEDGER FOR**
2 **2011 AS REQUESTED BY STAFF?**

3 **A.** We provided all of the information from TEM's general ledger that is relevant to Vail
4 Water Company. The rest of the general ledger is not relevant to the management fees
5 TEM collects from Vail and has no effect on Vail's ratepayers. Although I am not an
6 attorney, it is my understanding that the Affiliated Interest Rules, which might be a basis
7 to provide the Commission with access to Vail's affiliates' records, only apply to Class A
8 entities. As the Commission Staff knows, Vail is not a Class A entity. Furthermore,
9 Staff itself seems uncertain as to whether TEM Corp. would qualify as an "affiliate" of
10 Vail, and therefore, uses an analysis based on GAAP rules for related entities.

11 **Q. SHOULD THE COMMISSION INCLUDE A REQUIREMENT AS STAFF**
12 **SUGGESTS THAT THE COMPANY SEEK COMPETITIVE BIDS FOR ITS**
13 **MANAGEMENT SERVICES NO LESS FREQUENTLY THAN EVERY THREE**
14 **YEARS AND FILE THE BID DOCUMENTATION WITH COMMISSION**
15 **STAFF?**

16 **A.** No. As explained below, this requirement would be extremely impractical. It is also
17 unnecessary considering the reasonableness of the management fee for which Vail seeks
18 approval.

19 **Q. IN HIS TESTIMONY, MR. MICHLIK RAISES A CONCERN ABOUT THE**
20 **LACK OF A COMPETITIVE BIDDING PROCESS BASED ON A 1996 BID**
21 **FROM TEM CORP. SHOULD THIS BE A CONCERN?**

1 A. No. This bid from TEM Corp. preceded two rates cases in which the Commission
2 accepted the Company's management fees as reasonable. Certainly, if there was a
3 concern about the relationship between TEM Corp. and Vail, the Commission would
4 have addressed it in those cases.

5 **Q. IS IT PRACTICAL FOR VAIL TO CONDUCT A VIABLE BIDDING PROCESS**
6 **FOR THESE SERVICES AS RECOMMENDED BY STAFF?**

7 A. No. I am not even aware of five viable bidders for these services.

8 **Q. TO SUPPORT THESE CONCLUSIONS, HAVE YOU CONTACTED THIRD-**
9 **PARTY VENDORS TO DISCUSS THEIR SERVICES?**

10 A. Yes, I have contacted four companies: LaVoie & Company, P.C.; YL Technologies;
11 Southwestern Utility Management; and Smyth Utility Management.

12 **Q. WHAT RESPONSES DID YOU RECEIVE FROM THESE FOUR COMPANIES?**

13 A. I received a bid from LaVoie for \$170,165 annually. See Exhibit A. This company has
14 conducted Vail's audits for over ten years and is familiar with the Company's operations
15 and financials. YL Technologies declined to prepare a response. I had a meeting with
16 Smyth, but am still waiting for a formal response from them. I have not yet received a
17 formal response from Southwestern either, but intend to meet with them to discuss their
18 services.

19 **Q. SHOULD THE COMMISSION INCLUDE A REQUIREMENT AS STAFF**
20 **SUGGESTS THAT VAIL DIRECTLY TRACK SALARY COSTS FROM ITS**
21 **AFFILIATE TO THE MAXIMUM EXTENT PRACTICAL BY USE OF**
22 **TIMESHEETS IN UNITS NO LARGER THAN HOURLY?**

23 A. No. TEM Corp. could adopt a new time tracking system but it would be an unnecessary
24 administrative burden. TEM assigns salary expenses to its various clients based on
25 employees' estimates of the percentage of their time spent on each account. This is an

1 acceptable method of apportioning TEM's salary expenses. Requiring every employee to
2 keep hourly timesheets would impose a significant operational requirement on TEM
3 Corp. – an unregulated company – for little benefit. This is especially true considering
4 that Staff has not raised any concerns about the actual amount of the fee Vail pays to
5 TEM.

6 **Q. SHOULD THE COMMISSION INCLUDE A REQUIREMENT AS STAFF**
7 **SUGGESTS THAT THE COMPANY COOPERATE WITH STAFF AND**
8 **PROVIDE INFORMATION STAFF MAY NEED IN THE COMPANY'S**
9 **AFFILIATE GENERAL LEDGER AND OTHER ACCOUNTING RECORDS?**

10 **A.** No, that requirement is not necessary nor warranted. First, as noted above, the Company
11 strongly believes that it did provide all information necessary for Staff to verify the costs,
12 including the general ledger entries for all applicable accounts. TEM Corp. provides
13 management services for many other entities and providing proprietary information
14 relating to those services would be a violation of TEM Corp's obligations to those
15 entities. Second, although I am not an attorney, it is my understanding that the
16 Commission does not have the jurisdiction to require these entities to provide all of their
17 records to the Commission. In this case, Vail has cooperated with Commission Staff in
18 providing all records necessary for the Staff to verify the costs. Vail should not be
19 required to provide additional records that are not related to Vail.

20 **II. CAP SURCHARGE**

21 **Q. WHAT IS THE CURRENT STATUS OF THE CAP PROJECT?**

22 **A.** We have agreed on a base rate for the wheeling between Tucson Water and Vail Water
23 Co. Their original proposal was \$705 and we agreed on \$601.77. See Exhibit B. I
24 expect to receive a draft contract within 30 days. Once we negotiate a final version, it
25 will take six to eight weeks for it to be approved by the City Council.

1 **Q. HAVE YOU DISCUSSED THE MAJOR TERMS OF THE CONTRACT?**

2 **A.** Yes. Subject to approval by the City Council, the contract with Tucson Water will have a
3 five-year term with multiple five-year extensions, at a fixed price of \$601.77 plus an
4 inflator for power and O&M. It will also address Vail owning the booster designed by
5 Tucson Water and may incorporate a land lease for the site it sits on for a nominal
6 amount of rent. Vail will maintain the booster.

7 **III. CONCLUSION**

8 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

9 **A.** Yes.

EXHIBIT A

LaVoie & Co., P.C.

Certified Public Accountants

March 7, 2013

Mr. Christopher Volpe, CPA
Vice President and Treasurer
TEM Corp
1010 N. Finance Center Drive, Ste. 200
Tucson, AZ 85710

Dear Kip,

We are pleased to present our proposal to serve Vail Water Company with accounting and bookkeeping services.

We would like to suggest that we may be the most qualified firm to perform accounting and bookkeeping services for Vail Water Company. Our firm has been the Company's audit firm for over ten years. Even still, in order to properly to properly understand the other operational, compliance and reporting areas of the Company not touched by the audit, we will need to perform an initial review. Those hours are listed separately below.

We have identified the services as follows. If you identify additional services we missed please let us know and we will adjust our proposal.

Billing and Cash Receipts – billing and cash receipts are performed by the Vail office. We will obtain month end reports from the Vail office and journalize in the monthly activity into the Vail Water QuickBooks. We will reconcile those reports to the cash activity posted to the bank accounts. We will work on-site at the Vail office one day a month to perform these tasks.

Property Replacement – we will obtain and record property replacements during the year.

Payroll – we will run payroll twice a month. We will prepare the quarterly and year-end payroll reports for federal and State. We will timely deposit the required payroll taxes.

Accounts Payable and Cash Disbursements – we will process accounts payable only if approved by the appropriate Vail Water Company official. That official must understand the correct general ledger account coding and approve the coding.

General Ledger - we will prepare the proper monthly bookkeeping. All data will be entered and reviewed for correctness.

Bank Reconciliations – you currently have 28 active bank accounts. We will perform the monthly bank reconciliations.

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Monthly Financial Statements – we will issue monthly compiled financial statements.

Monitor Compliance Issues – we will monitor compliance issues and notify and follow up on issues that come up.

Quarterly Reports to ACC – we will prepare the quarterly ACC Reports.

Annual Audit – we will prepare schedules and workpapers as required by the outside auditors. We anticipate a maximum of sixteen hours preparing the requested schedules and workpapers. If the auditor's requests cause us to exceed sixteen hours, that time will be an additional billing.

Annual Filings - we will prepare the various annual filings.

Initial Transfer of Existing Computer Files – we will obtain the current QuickBooks electronic file and install it onto our system.

We propose the following pricing for the services noted above:

	<u>Monthly Hours</u>		
	CPA	Accountant	Bookkeeper
Billing and Cash Receipts		12	
Property Replacement		1	
Payroll, reports, deposits		2	10
Accounts Payable and			
Cash Disbursements		8	24
General Ledger	2	12	8
Bank Reconciliations			10
Monthly Financial Statements	2	2	
Monitor Compliance Issues		4	4
	4	41	56
Billing Rate	<u>\$185</u>	<u>\$124</u>	<u>\$92</u>
	\$740	\$5,084	\$5,152
Total monthly billing	<u>\$10,976</u>		

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	<u>One Time Hours</u>		
	CPA	Accountant	Bookkeeper
Initial Review of All Company Files	100		
Initial Transfer of Existing Computer Files		8	
Billing Rate	<u>\$185</u>	<u>\$124</u>	<u>\$92</u>
	\$18,500	\$992	
One-time billing	<u>\$19,492</u>		

	<u>Quarterly Hours</u>		
	CPA	Accountant	Bookkeeper
ACC Filings	4	8	8
Billing Rate	<u>\$185</u>	<u>\$124</u>	<u>\$92</u>
	\$740	\$992	\$736
Quarterly billing	<u>\$2,468</u>		

	<u>Once A Year Annual Hours</u>		
	CPA	Accountant	Bookkeeper
Filings:			
ADWR	1	7	
ACC	8		
CAGRD	1	7	
ADEQ	1	7	
Pima County	1	7	
PDEQ	1	7	
Annual Audit	<u>8</u>	<u>4</u>	<u>4</u>
	21	39	4
Billing Rate	<u>\$185</u>	<u>\$124</u>	<u>\$92</u>
	\$3,885	\$4,836	\$368
Annual billing	<u>\$9,089</u>		

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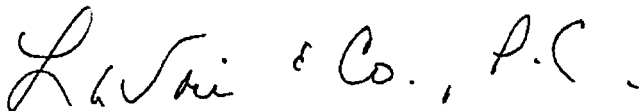
Anticipated fees are summarized as follows:

		<u>Total</u>
Total monthly billing	<u>\$10,976</u>	\$131,712
One-time billing		19,492
Quarterly billing	<u>\$2,468</u>	9,872
Annual billing		<u>9,089</u>
		<u>\$170,165</u>

The accountant and bookkeeper will be fully cross-trained to provide uninterrupted service.

We look forward to the opportunity to serve Vail Water Company and can assure you of our commitment to quality services and client satisfaction.

Sincerely,



LaVoie & Company, P.C.
TRL\lf

LaVoie & Co., P.C.

EXHIBIT B

Table 1

VWC Water Wheeling Study
Summary of Wheeling Costs and Rates

Description	Preliminary (2012)		Revised (2012)	
	Wheeling \$	\$/AF	Wheeling \$	\$/AF
Operation & Maintenance	\$15,943,300	\$166.49	\$15,943,300	\$166.49
Taxes	\$512,942	\$5.36	\$512,942	\$5.36
Capital Requirements ¹	\$31,378,135	\$327.68	\$22,383,500	\$233.75
Total	\$47,834,377	\$499.53	\$38,839,741	\$405.60
Potable Water Sales (Ccf)	41,018,347		41,018,347	
Potable Water Sales (AF)	94,159		94,159	
Oro Valley Water Sales (AF)	1,600		1,600	
Total Water Sales (AF) ²	95,759		95,759	
Base Usage Rate		\$499.53		\$405.60
Estimated Power Rate ³		\$196.17		\$196.17
Total usage rate		\$695.70		\$601.77

¹ Preliminary based on rate of return of 6.61%; revised based on rate of return of 3.79%

² AF = Ccf X 100 X 7.48 / 325851

³ From CH2M HILL